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APPENDIX I



Financial Statements and Report of Independent Certified Public Accountants

Puerto Rico Highways and Transportation Authority

(A Component Unit of the Commonwealth of Puerto Rico)
June 30, 2009 and 2008

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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We have audited the accompanying statement of net assets of Puerto Rico Highways and Transportation Authority (the Authority), a component unit of the Commonwealth of Puerto Rico, as of June 30, 2009 and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Puerto Rico Highways and Transportation Authority as of June 30, 2008, were audited by other auditors whose report dated September 19, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Puerto Rico Highways and Transportation Authority at June 30, 2009, and the changes in its net assets and its cash flows for the year then enced in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report, dated December 22, 2009, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Certified Public Accountants and Business Advisors
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The management's discussion and analysis information on pages 3 through 11 and the schedule of funding progress for retirce health plan on page 47 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

This report is intended solely for the information and use of the Board of Directors and management of the Authority and the Department of Treasury of the Commonwealth of Puerto Rico and is not intended to be and should not be used by anyone other than these specified parties.

Kevare Brank Thornton LLP

San Juan, Puerto Rico, December 22, 2009.

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Management Discussion and Analysis Years ended June 30, 2009 and 2008

The following discussion and analysis of the financial performance and activity of the Puerto Rico Highways and Transportation Authority (the Authority) provides an introduction and understanding of the basic financial statements of the Authority for the fiscal years ended June 30, 2009 and 2008. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follows this section.

Financial Highlights for 2009

- Net assets totaled \$4,456.4 million at June 30, 2009.
- Net assets decreased by \$270.2 million in 2009, as compared to a decrease of approximately \$238 million in 2008.
- Net capital assets totaled \$11,303.6 million at June 30, 2009.
- Net capital assets decreased by .16% at June 30, 2009, when compared with the balance at June 30, 2008 of \$11,321.5 million.

Financial Highlights for 2008

- Net assets totaled \$4,726.7 million at June 30, 2008.
- Net assets decreased \$268.1 million in 2008, as compared to a decrease of \$190.1 million in 2007.
- Net capital assets totaled \$11,321.5 million at June 30, 2008.
- Net capital assets increased by 1% at June 30, 2008, when compared with the balance at June 30, 2007 of \$11,239.2 million.

The Financial Statements

The basic financial statements provide information about the Authority's business-type activities. The financial statements are prepared in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB).

Overview of the Financial Statements for Business-Type Activities

The financial statements consist of the: (1) statement of net assets, (2) statement of revenues, expenses, and changes in net assets, (3) statement of cash flows, and (4) notes to the financial statements. The financial statements are prepared on the acctual basis of accounting, meaning that all expenses are recorded when incurred and all revenues are recognized when earned, in accordance with U.S. generally accepted accounting principles.

Statement of Net Assets

The statement of net assets reports all financial and capital resources of the Authority. The statement is presented in the format where assets equal liabilities plus net assets. Assets and liabilities are presented in order of liquidity and are classified as current (convertible into cash within one year) and noncurrent. The focus of the statement of net asset is to show a picture of the liquidity and health of the Authority as of the end of the year.

Management Discussion and Analysis Years ended June 30, 2009 and 2008

The Authority's net assets are reported in the following categories:

- Net Assets Invested in Capital Assets, Net of Related Debt this component of net assets consists of all capital assets, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Although the Authority's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations and from gasoline and petroleum taxes allocated annually by the Commonwealth of Puerto Rico, since the capital assets themselves cannot be used to liquidate liabilities.
- Restricted for Debt Service this component of net assets consists of restricted assets for the
 principal and interest payments of the bonds payable. This restriction is imposed by the
 bondholders through debt covenants.
- Restricted for Construction this component of net assets consists of restricted assets for the
 specific purpose of pay the construction projects. This restriction is imposed by the grantors and
 contributors, as well as the bondholders through debt covenants.
- Unrestricted Net Assets this component consists of net assets that do not meet the definition of
 net assets invested in capital assets, net of related debt, or restricted for debt service or for
 construction.

Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets includes operating revenues, which consist of toll, train fares, impact fee and other, and operating expenses, such as costs of operating the mass transportation system, administrative expenses, and depreciation on capital assets; and non-operating revenue and expenses, such as gasoline, diesel, oil and petroleum taxes, vehicle license fee, interest and investment income, and interest expense. The focus of the statement of revenues, expenses, and changes in net assets is the change in net assets. This is similar to net income or loss and portrays the results of operations of the Authority for the entire operating period.

Statement of Cash Flows

The statement of cash flows discloses net cash provided by or used for operating activities, investing activities, noncapital financing activities, and from capital and related financing activities. This statement also portrays the health of the Authority in that current cash flows are sufficient to pay current liabilities.

Notes to Financial Statements

The notes to financial statements are an integral part of the basic financial statements and describe the significant accounting policies, related-party transactions, deposits and investments, capital assets, capital lease obligations, bonds payable, long-term liabilities, defined-benefit pension plans, derivative financial instruments, and the commitments and contingencies. The reader is encouraged to review the notes in conjunction with the management discussion and analysis and the financial statements.

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Management Discussion and Analysis Years ended June 30, 2009 and 2008

Financial Analysis of the Authority's Business-Type Activities

Statements of Net Assets

The following table reflects a condensed summary of assets, liabilities, and net assets of the Authority as of June 30, 2009, 2008, and 2007:

	· · · · · · · · · · · · · · · · · · ·	June 30,	·
•	2009	2008	2007
Assets:	,		
Current assets	\$ 55,545,027	\$ 88,421,458	\$ 79,864,357
Restricted assets	828,078,353	800,883,622	863,277,527
Capital assets, net	11,303,575,031	11,321,489,657	11,239,182,666
Other assets	124,046,633	131,820,569	160,370,993
Total assets	\$12,311,245,044	\$ 12,342,615,306	\$ 12,342,695,543
Liabilities:			
Current liabilities	\$ 495,524,891	\$ 524,953,981	\$ 366,094,476
Long-term liabilities, net	7,359,318,355	7,090,993,767	6,981,861,473
Total liabilities	\$ 7,854,843,246	\$ 7,615,947,748	\$ 7,347,955,949
Net Assets:			:
Investment in capital assets,			
net of related debt	\$ 3,842,733,290	\$ 3,991,522,521	\$ 4,142,081,412
Restricted for debt service	595,340,428	576,138,901	634,835,969
Restricted for construction	41,763,134	47,590,565	71,674,452
Unrestricted	(23,435,054)	111,415,571	146,147,761
Total net assets	4,456,401,798	4,726,667,558	4,994,739,594
Total liabilities and net assets	\$12,311,245,044	\$ 12,342,615,306	\$ 12,342,695,543

June 30, 2009

Current assets decreased by 37 % to \$55.5 million. The change in current assets is primarily due to a decrease in overnight deposits under repurchase agreements.

Restricted assets increased by 3% to \$828.06 million. The increased consist basically due to an increased in the investment with trustee at June 30, 2009.

Management Discussion and Analysis Years ended June 30, 2009 and 2008

Capital assets decreased by .16% to \$17,914.6 million due to a decrease in construction in progress and increase in the accumulated depreciation of approx \$50 million in the Transportation System (Urban Train). Capital assets are funded mainly with the proceeds of bonds and notes and with capital grants from the Federal Highways Administration (FHWA) and Federal Transit Administration (FTA). Total capital grants from FHWA and F1'A during fiscal year 2009 and used to fund capital assets amounted to approximately \$128.7 million.

Other assets decreased by 6% to \$124.05 million due to a decrease on revenues bonds issuance cost resulting from the current year amortization.

Current liabilities decreased by 5% to \$495 million. The factors that caused this decrease was mainly the net effect of an increase in balances due to suppliers offset by a decrease in balances due to contractors and non-revolving lines of credit.

Long-term liabilities increased by 4% to \$7,359 million due principally to a net effect of a decrease in bonds payable and an increase in lines of credit and legal reserve.

Net assets decreased by 5% to \$4,456.4 million principally due to a reduction on the Investment in capital assets, net of related debt and unrestricted net assets.

June 30, 2008

Current assets increased by 11% to \$88.4 million. The change in current assets is primarily due to an increase in overnight deposits acquired under repurchase agreements.

Restricted assets decreased by 7% to \$800.9. This decrease consist principally of a decrease in amounts deposited in construction fund of \$75 million for amounts disbursed for construction cost during the year and a decrease in receivables from capital grants due to the completion level of certain projects net of an increase in sinking fund reserves for the payment of bond principal and increase.

Capital assets increased by 1% to \$11,321.5 million due to the Authority's capital improvement program. Capital assets are funded with the proceeds of bonds and notes and with capital grants from the Federal Highways Administration (FHWA) and Federal Transit Administration (FTA). Total capital grants received from FHWA and FTA during fiscal year 2009 and used to fund capital assets amounted to approximately \$158.8 million.

Other assets decreased by 18% to \$131.8 million due to the current year amortization of the bond issue cost and a decrease in amount due from the Department of Transportation and Public Work (DTPW). The balance due by DTPW as of June 30, 2007 was reduced this fiscal year 2008 through charges to repairs of roads and bridges.

Current liabilities increased by 43% to \$525.0 million. This increase consist principally of an increase in accounts payable and accrued liabilities and construction contracts payable of \$50 million, an increase in line of credit of \$83.6 million, an increase in accrued interest payable of \$14.5 million, and an increase in current portion of bonds payable of \$18 million net of a decrease in checks issued over bank balance of \$8.5 million.

Management Discussion and Analysis Years ended June 30, 2009 and 2008

Long-term liabilities increased by 1% to \$7,091.0 million due principally to the issue of \$200 million of Subordinated Transportation Revenue Bonds (Series 2007B and 2008A) net of bonds paid during the fiscal year 2008.

Net assets decreased by 5% to \$4,726.7 million. This decrease was the result of an excess of expenses over revenues (both operating and non-operating) and capital grants of \$268.1 million. The largest portion of the Authority's net assets represents its investment in capital assets net of related debt outstanding used to acquire those capital assets.

Statements of Revenues, Expenses and Changes in Net Assets

The following table reflects a condensed summary of the revenues, expenses, and changes in net assets for the three years ended on June 30, 2009, 2008 and 2007.

•			·····
	2009	2008	2007
Operating revenues	\$ 229,161,530	\$ 239,549,405	\$ 249,334,483
Operating expenses	319,279,141	299,822,186	266,849,286
Depreciation and amortization	401,846,189	388,378,256	368,500,526
Operating loss	(491,963,800)	(448,651,037)	(386,015,329)
Non-operating revenues	325,902,272	325,882,395	333,972,123
Non-operating expenses	(280,640,613)	(304,087,854)	(264,779,600)
Loss before capital grants	(446,702,141)	(426,856,496)	(316,822,806)
Capital grants	176,436,381	158,784,460	126,717,771
Change in net assets	(270,265,760)	(268,072,036)	(190,105,035)
Net Assets at beginning of year	4,726,667,558	4,994,739,594	5,184,844,629
Net Assets at end of year	\$ 4,456,401,798	\$ 4,726,667,558	\$ 4,994,739,594

Year Ended June 30, 2009

Operating revenues, which consisted of toll fares, train fares and other revenues decreased by 4.53% to \$229.1 mainly due to a decrease in toll fares of \$6.2 million and a decrease in impact fee of \$5.7 million. This decrease is due to a reduction in patronage during fiscal year 2009 as a result of general economic conditions.

Operating expenses increased by 6% to \$319.2 million mainly due to the net effect of an increase in the legal reserve of \$30 million and decrease in salaries and related benefits as a result of a change in the capitalization policy for the year ended June 30, 2008.

Management Discussion and Analysis Years ended June 30, 2009 and 2008

Non-operating revenues, which consist principally of gasoline, oil, diesel and petroleum taxes and vehicle license fees allocated by the Commonwealth of Puerto Rico to the Authority, maintained in line with prior year, it reflected an increase of .08%.

Non-operating expenses, which consist principally of interest expense on bonds and line of credit, transfers and construction work performed for other government agencies, net of investment income, decreased by 8% to \$280.6 million. This decrease is due to a decrease in transfers and construction work performed for other government agencies.

Year Ended June 30, 2008

Operating revenues, which consisted of toll and train fares, decreased by 4% to \$239.5 mainly due to a decrease in toll fares of \$7.2 million and a decrease in train fares of \$3.7 million. This decrease is due to a decrease in patronage during fiscal year 2008 as a result of general economic conditions.

Operating expenses increased by 12% to \$299.8 mainly due to a decrease in expenses capitalized during fiscal year 2008 to construction in process of approximately \$30 million.

Non-operating revenues, which consist principally of gasoline, oil, diesel and petroleum taxes and vehicle license fees allocated by the Commonwealth of Puerto Rico to the Authority, decreased by 2% to \$325.9 million. This decrease is mainly due to a decrease of \$8.1 million in gasoline, oil, diesel and petroleum taxes due to general economic conditions such as the increase in cost of petroleum during the year, net of an increase of vehicle license fee of \$2.9 million.

Non-operating expenses, which consist principally of interest expense on bonds and line of credit, transfers and construction work performed for other government agencies, net of investment income, increased by 15% to \$304.1. This increase is due to an increase interest on bonds and line of credit during fiscal year 2008 of \$22 million, an increase in transfers and construction work performed for other government agencies of \$26.5 million net of an increase in investment income of \$9.1 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, the Authority had invested approximately \$11,303.6 million in capital assets (net of related depreciation) including roads, bridges, transportation equipment, buildings, land and equipment and construction in progress. At June 30, 2008, the Authority had invested approximately \$11,321.5 million in capital assets.

At the end of fiscal year 2005, the Authority started operating the mass rail transportation system for the San Juan Metropolitan area known as "Tren Urbano". The Authority incurred approximately \$2.42 billion in costs, \$685.7 million paid with federal funds, for this project which consists of approximately 17 km. of track running from Bayamón to Santurce. Maintenance services are partially funded with capital grants from Federal Transit Administration (FTA). Total capital grants received from FTA during fiscal year 2009 and used for maintenance services amounted to \$21.4 million.

The Authority entered into a five-year contract for the operation and maintenance of the system with a private company, which expires on June 5, 2010, with an option to extend the term for an

Management Discussion and Analysis Years ended June 30, 2009 and 2008

additional five (5) years. Under this agreement, the private company is responsible for operating and maintaining Tren Urbano and is entitled to receive for such services an annual base compensation, subject to inflation adjustment for changes in cost of labor and materials. The base compensation does not include the cost of insurance and electricity which is paid by the Authority.

Debt Administration

By the end of fiscal year 2009, the principal amount of the Highways and Senior Transportation, and Grant Anticipation Revenues Bonds outstanding, net of unamortized discounts and net losses on advance refunding, which approximated \$7,033.4 million, are insured and rated Baa3 by Moody's Investors Service (Moody's) and BBB by Standard & Poor's (S&P) for the Senior Bonds and BBB+ for the other Bonds. The remaining uninsured bonds are rated Baa1 by Moody's and A by S&P, except for the Subordinated Transportation Revenue Bonds, which are rated Aaa and A-, respectively.

On May 1, 2008, the Authority issued \$400 million of Subordinated Transportation Revenue Bonds (Series 2008A). The Proceeds from the Series 2008A were used to repay the Subordinated Transportation Revenue Bonds from Series 2006A, 2007A and 2007B.

The Authority's bond sales must be approved by the Secretary of Transportation and Public Works, who exercises the powers of the Governing Board of the Authority in coordination with the Government Development Bank for Puerto Rico and the Fiscal Agent of the Commonwealth of Puerto Rico. The Authority must comply with certain rules and regulations of the United States Treasury Department and the United States Securities and Exchange Commission relating to such sales.

In connection with the issuance of the CPI and LIBOR Bonds, the Authority has entered into interest rate swap agreements. In general, the swap agreements provides that, subject to the terms thereof, the Authority will pay to the swap provider a fixed rate and the swap provider will pay to the Authority a floating rate based on the CPI or LIBOR Rate, based on a notional amount equal to the principal amount of the CPI and LIBOR Bonds outstanding. The purpose of the swap agreement is generally to convert the Authority's floating rate obligations with respect to the CPI and LIBOR Bonds to fixed rate obligations.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The economy of Puerto Rico must be analyzed as a region of the U.S. economy, since it is part of the U.S. monetary and banking system, and it is located within its custom and territorial boundaries. The main driver of the Puerto Rico economy is a huge external sector closely tied to the flow of merchandise, tourists, and capital between Puerto Rico and the Mainland. Thus, historically, the real growth rate of the Puerto Rico economy has followed that of the U.S. economy, except in periods of energy crisis, when the rise in oil prices exerted a more profound negative effect on the level of economic activity in Puerto Rico. According to the NBER, the U.S. economy entered into a recessionary period in December 2007, which turned into a deep recession in the third quarter of 2008, concurrent with a U.S. and globally financial and housing market crises. The current recession has been the longest and deepest since the Great Depression of the thirries. In this period of what has been called the Great Recession, the U.S. economy experienced declines in real GDP at annual rates of -5.4% in the fourth quarter of 2008 and -6.4% in the first quarter of 2009. In terms of fiscal

Management Discussion and Analysis Years ended June 30, 2009 and 2008

years, U.S. real GDP dropped by -2.25% in fiscal year 2009, posting its first decline in the present decade. In fiscal year 2009, the U.S. economy also lost 3.2 million payroll jobs and the average annual unemployment rate rose from 4.95% in fiscal year 2008 to 7.57% in fiscal year 2009.

Real GNP of the Puerto Rico economy declined by more than -5.0% in fiscal year 2009, a negative record since the Great Depression, as anticipated by the Interamerican Econometric Model and later confirmed by the Planning Board. This steep decline in Puerto Rico real GNP was caused by the interaction of several factors, mainly the substantial magnitude of the U.S. and global economic crises, combined with the negative effects of the fiscal crisis of the Puerto Rico Central Government and a substantial overbuilding in the housing sector. However, in spite of the volatility of oil and gasoline prices during fiscal year 2009, the average price of gasoline dropped from \$3.24 per gallon in fiscal year 2008 to \$2.51 per gallon in fiscal year 2009, posting a decline of 73 cents per gallon or 20%. This decline in gasoline prices contributed to offset the negative impact of the recession on gasoline and other petroleum products consumption, as well as Authority's revenues.

We must emphasize that in spite of the adverse macroeconomic environment prevailing in fiscal year 2009, the Authority was able to achieve a level of recurrent revenues, excluding train farcs and financial revenues, close to the level attained in fiscal year 2008. The total of the main five categories of recurrent revenues amounted to \$532.5 million, a drop of only \$6.1 million over the amount collected in fiscal year 2008 (\$538.6 million), which can be mainly attributed to negative structural and extraordinary factors affecting diesel tax revenues and toll revenues.

Gasoline tax revenues amounted to \$174.6 million in fiscal year 2009, a figure similar to that of fiscal year 2008 (\$174.7 million). Gasoline tax revenues remained stable in spite of the adverse recessionary conditions, due to the favorable impact of the 20% decline in gasoline prices. The lower level of gasoline and petroleum products prices also contributed to a moderate 2.3% increase in revenues of the special petroleum products tax, which rose from \$99.04 million in fiscal year 2008 to \$101.3 million in fiscal year 2009. Revenues from the tax on diesel oil dropped from \$18.08 in fiscal year 2008 to \$13.86 million in fiscal year 2009, a decline of \$4.22 million. This decline was mainly due to a lower consumption of taxable Fuel # 2 (Middle Distillates) from the Electric Power Authority (AEÉ), which contributes with more than fifty percent to total diesel tax revenues. The lower consumption of the Fuel #2 by the AEE was caused by the reopening of the Palo Seco generating plant, which fully operated in fiscal year 2009, and the decline of -5.36% in electricity generation caused by recessionary economic conditions, which tend to affect more negatively the demand for high cost Fuel #2. Toll revenues were negatively affected by the recession and a special structural factor associated with a temporary, but significant, decline in toll revenues from PR-53 plazas, when toll collection was changed from two to only one direction. Total revenues from toll plazas amounted to \$208.011 million in fiscal year 2009, a drop of \$4.62 million, of which \$2.1 million or 45% can be attributed to the decline in revenues of PR-53, and about \$1.0 million to the decline in revenues in September of 2008 due to floods associated with hurricane Kyle. Revenues from the motor vehicles license fees increased for a second year in a row, rising from \$34.0 million in fiscal year 2008 to \$36.3 million in fiscal year 2009, in spite of a significant drop in new vehicle registration. This increase was probably due to the payment of Treasury's for license fees collected prior to fiscal year 2009.

¹ Total toll revenues during fiscal year 2009 does not include \$1.5 million of deferred revenues.

Management Discussion and Analysis Years ended June 30, 2009 and 2008

A weak macroeconomic environment is expected to persist in fiscal year 2010, due to a modest recovery in the U.S. economy, without any significant growth in Pucito Rico real GNP, as projected by the Inter American University Econometric Model. We must emphasize that in spite of the turnaround to a positive growth in the U.S. economy in the third quarter of 2009, at an annual rate of 2.8%, in fiscal year 2010 the U.S. economy is expected to achieve only a meager growth of 0.26% in terms of real GDP, posting another loss of 4.0 million payroll jobs and a 10% average unemployment rate. The Puerto Rico economy is expected to enter into a recovery phase in the second semester of fiscal year 2010, with the help of the U.S. recovery and the positive impact of the Federal and local stimulus plans. However, in spite of a weak macroeconomic environment in fiscal year 2010, operating revenues of the Authority, excluding train fares and investment income, are expected to expand moderately to a level of \$541.5 million in fiscal year 2010, posting an increase of \$9.0 million or 1.7% over fiscal year 2009. The behavior of main recurrent revenues in the first four months of fiscal year 2010 shows encouraging signs. In the first four months of the current fiscal year 2010, revenues from the gasoline tax amounted to \$58 million, showing an increase of 2.78% over the same period of last year. A decline of 29% in gasoline prices in the period of July-October 2009 over a year ago was the main factor contributing to the increase in gasoline demand. The behavior of toll revenues is even more encouraging. In the period July-October 2009, toll revenues amounted to \$69.35 million, surpassing by \$1.87 million or 2.8% the level attained in the same period of 2008.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our bondholders, patrons, and other interest parties with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have question or need additional financial information, contact the Puerto Rico Highways and Transportation Authority, Finance Area, P.O. Box 42007, San Juan, Puerto Rico 00940-2007.

Statements of Net Assets June 30, 2009 and 2008

	2	009		2008
Current assets:			***************************************	
Cash and cash equivalents	\$.	30,718,499	\$	80,245,810
Accounts receivable, net of allowance for doubtful				
accounts of \$41,722,944 and \$41,603,899 .				
in 2009 and 2008, respectively	:	22,833,588		5,568,799
Prepaid expenses and other assets		1,992,940		2,606,849
Total current assets	****	55,545,027		88,421,458
Restricted assets:				
Cash and cash equivalents		41,964,963		38,618,433
Cash and investments with trustee	7'	74,515,123		746,764,187
Receivables-				
Puerto Rico Treasury Department		227,311		227,310
US Federal Government		10,199,758		13,954,161
Accrued interest and other		1,171,198		1,319,531
Total restricted assets	. 82	28,078,353		800,883,622
Capital assets:				
Land	1,83	21,795,129		1,812,808,155
Construction work in progress	93	25,870,443		1,014,081,507
Transportation system, net	2,22	27,825,827		2,276,213,343
Roads and bridges, net	6,29	97,724,618		6,192,020,421
Equipment, vehicles and other, net		30,359,014		26,366,231
Total capital assets	11,30	03,575,031		1,321,489,657
Revenue bonds issuance cost, net of				•
accumulated amortization of \$40,860,894				
and \$33,086,958 in 2009 and 2008, respectively	12	24,046,633		131,820,569
Advances to governmental entity, net of				
of allowance for doubtful accounts of				•
\$18,790,466 and \$15,059,802 in 2009 and 2008, respectively	· · · · · · · · · · · · · · · · · · ·			
Total Assets	\$ 12,31	1,245,044	\$ 1	2,342,615,306

The accompanying notes are an integral part of these financial statements.

Puerto Rico Highways and Transportation Authority

(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Net Assets June 30, 2009 and 2008

Liabilities and Net Assets

	2009	2008
Cutrent liabilities:		
Checks issued over bank balance	\$ 7,554,582	\$ 13,105,773
Accounts payable	82,916,894	22,486,343
Accrued and other liabilities ,	33,890,789	26,939,756
Non-revolving lines of credit	•	83,570,729
Liabilities payables from restricted assets-		•
Accounts and subcontracts payable	110,090,406	140,896,349
Accrued interest payable	156,982,220	154,015,031
Cuttent portion of bonds payable	104,090,000	83,940,000
Total current liabilities	495,524,891	524,953,981
Long- term debt:		
Accrued legal claims	62,404,000	31,940,000
Accrued vacations and sick leave	16,260,794	14,354,584
Non-revolving lines of credit	351,313,000	-
Bonds payable, net	6,929,340,561	7,044,699,183
Total long-term debt	7,359,318,355	7,090,993,767
Total liabilities	7,854,843,246	7,615,947,748
Net assets:		
Investment in capital assets, net of related debt	3,842,733,290	3,991,522,521
Restricted for debt service	595,340,428	576,138,901
Restricted for construction	41,763,134	47,590,565
Unrestricted	(23,435,054)	111,415,571
Total net assets	4,456,401,798	4,726,667,558
Total liabilities and net assets	\$ 12,311,245,044	\$ 12,342,615,306

The accompanying notes are an integral part of these financial statements.

Statements of Revenues, Expenses and Changes in Net Assets Years ended June 30, 2009 and 2008

	2009	2008
Operating revenues:		
Toll and train faces	\$. 217,683,308	\$ 223,258,672
Impact fee and other	11,478,222	16,290,733
Total operating revenues	229,161,530	239,549,405
Operating expenses:		
Salaries and related benefits	25,429,180	54,733,004
Toll highways administration and maintenance	31,563,122	23,992,384
Train operating and maintenance costs	75,510,088	73,068,072
Integrated transportation system	27,228,909	29,707,530
Repairs and maintenance of roads and bridges	67,825,049	66,463,401
Utilities	12,084,121	14,555,321
Other	79,638,672	37,302,474
Total operating expenses	319,279,141	299,822,186
Operating loss before depreciation		
and amortization	(90,117,611)	(60,272,781)
Depreciation and amortization	401,846,189	388,378,256
Operating loss	(491,963,800)	(448,651,037)
Non-operating income (expenses):		
Gasoline, diesel, oil and petroleum tax revenues	289,593,522	291,840,831
Vehicle license fee	36,308,750	34,041,564
Interest on bonds and line of credit	(316,175,096)	(286,603,283)
Interest and investment income	38,585,898	38,298,408
Transfers and construction work performed		
for other government agencies	(3,051,415)	(55,782,979)
Total non-operating income	45,261,659	21,794,541
Loss before capital grants	(446,702,141)	(426,856,496)
Capital grants	176,436,381	158,784,460
Change in net assets	(270,265,760)	(268,072,036)
Net assets at beginning of the year	4,726,667,558	4,994,739,594
Net assets at end of year	\$ 4,456,401,798	\$ 4,726,667,558

The accompanying notes are an integral part of these financial statements.

Puerto Rico Highways and Trasnportation Authority

(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Cash Flows Years ended June 30, 2009 and 2008

	2009	2008
Operating activities:		
Receipts from toll and train fares	\$ 208,160,045	\$ 223,258,672
Receipts from other sources	11,478,222	20,136,669
Payments to employees and related benefits	(23,655,471)	(52,064,753)
Payments to suppliers for goods and services	(198,781,931)	(212,533,234)
Net cash flows used in operating activities	(2,799,135)	(21,202,646)
Non-capital financing activities:		•
Transfers and construction work performed		
for other government agencies	(3,051,415)	(55,782,979)
Payment for bonds issuance cost	-	(123,500)
Net change in checks issued over bank balance	(5,551,191)	(8,467,850)
Net cash flows used in non-capital financing activities	(8,602,606)	(64,374,329)
Capital and related financing activities:		
Receipts from US Federal Government grants	180,190,784	168,885,655
Acquisition and construction of capital assets, net of		
capitalized interest	(373,660,653)	(386,639,014)
Receipts from gasoline, petroleum and		
vehicle license fees	321,899,709	334,385,542
Net advances from line of credit	267,742,271	83,570,729
Proceeds from bond issuance	-	200,000,000
Payments to retire bonds	(83,940,000)	(66,020,000)
Interest paid	(357,994,446)	(326,520,052)
Net cash flows (used in) provided by capital and		
related financing activities	(45,762,335)	7,662,860
Investing activities:		
Payments for cash and investments with Trustee	(440,866,210)	(303,607,361)
Deposits to cash and investments with Trustee	413,969,061	357,733,810
Investment and interest income received	37,880,444	34,806,242
Net cash flows provided by investing activities	10,983,295	88,932,691
Net (decrease) increase in cash and cash equivalents	(46,180,781)	11,018,576
Cash and cash equivalents at beginning of year	118,864,243	107,845,667
Cash and cash equivalents at end of year	\$ 72,683,462	\$ 118,864,243

The accompanying notes are an integral part of this statement.

Puerto Rico Highways and Trasnportation Authority

(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Cash Flows
Years ended June 30, 2009 and 2008

Reconciliation to cash and cash equivalents		
presented in the statements of net asstes:	\$ 30,718,499	\$ 80,245,810
Cash and cash equivalents	41,964,963	38,618,433
Cash and cash equivalents - restricted Total		\$ 118,864,243
10121	1 2,003,402	2 110,004,213
Reconciliation of operating loss to net cash flows		
provided by operating activities:		
Operating loss	\$ (491,963,800)	\$ (448,651,037)
Adjustments to reconcile operating loss to net		
cash flows used in operating activities:		
Depreciation and amortization	401,846,189	388,378,256
Loss on disposition of assets	216,464	•
Decrease in amount due from government		
entities through charges to repairs of		
roads and bridges		20,246,663
Net change in operating asstes and liabilities:		
Accounts receivable	(17,264,789)	3,845,936
Prepaid expenses and other assets	613,909	274,046
Accounts payable	60,430,551	12,035,239
Accrued liabilities	10,952,131	(994,843)
Accrued legal claims	30,464,000	
Accrued vacations and sick leave	1,906,210	3,663,094
Net cash flows used in operating activities	\$ (2,799,135)	\$ (21,202,646)
Supplemental cash flows information		
(Non-cash transaction):		
Bonds defeased in issuance of bonds	3 -	\$ 400,000,000
CONTROL OF THE CONTRO		
Capital appreciation bonds	\$ 5,207,054	\$ 5,508,099

Notes to Financial Statements June 30, 2009 and 2008

(1) Organization and summary of significant accounting policies:

(a) Organization -

Puerto Rico Highways and Transportation Authority ("the Authority!") is a public corporation and instrumentality of the Commonwealth of Puerto Rico, created by Act No. 74 of June 23, 1965, as amended, to provide roads and other facilities for the movement of persons, vehicles and vessels, and for the planning, promotion and feasibility of mass transportation systems. The Authority is a component unit of the Commonwealth of Puerto Rico and accordingly is included in the general-purpose financial statements of the Commonwealth. The powers normally exercised by a Board of Directors are vested with the Secretary of the Department of Transportation and Public Works (DTPW). The Authority is exempt from the payment of any taxes on its revenues and properties.

(b) Summary of significant accounting policies:

(i) Measurement focus and basis of accounting -

The accounting policies of the Authority conform to generally accepted accounting principles in the United States of America, as promulgated in pronouncements of the Governmental Accounting Standards Board (GASB) and the pronouncements of the Financial Accounting Standards Board (FASB) issued before December 1, 1989, which are not in conflict with GASB pronouncements. As permitted by GASB Statement No. 20 Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, the Authority has elected to not apply FASB pronouncements issued after November 30, 1989.

The Authority's operations are accounted for as a proprietary fund (enterprise fund) using the flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the Authority's operations are included on the statement of net assets. Revenue is recognized in the period in which it is earned and expenses are recognized in the period in which incurred.

The Authority accounts for its operations and financings in a manner similar to private business enterprises; the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

(ii) Cash and cash equivalents -

The Authority considers as cash and cash equivalents all highly liquid investments with original maturities at the date of purchase of three months or less.

(iii) Investments The Authority follows the provisions of GASB No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools". This statement requires investments to be reported on the statements of net assets at fair value and investment income, including changes in the fair value of investments, to be reported as non-operating income in the statement of revenues, expenses and changes in net assets. Fair values have been determined using quoted market values at June 30, 2009 and 2008.

Notes to Financial Statements June 30, 2009 and 2008

(iv) Allowance for doubtful accounts -

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing accounts receivable that may become uncollectible based on evaluations of collectibility of accounts receivable and prior credit loss experience. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the existing accounts receivable and related allowance may change in the future.

(v) Capital assets:

Cost basis-

Capital assets are recorded at historical cost or estimated historical cost. The cost of property and equipment includes costs for infrastructure assets (rights-of-way and bridge substructures and highways and bridges), toll facilities, equipment and other related costs (including software), buildings and furniture and equipment. Highways and bridge substructures include road subbase, grading, land clearing, embankments, and other related costs. Costs for infrastructure assets include construction costs, design and engineering fees and administrative and general expenses paid from construction monies.

Capitalization policy-

Infrastructure capital assets (road, bridges, highways, transportation equipment, etc.) are defined by the Authority as assets with an initial individual cost of more than \$500,000 and an estimated useful life of more than one year. Other capital assets, such as equipment, vehicles, etc. are defined by the Authority as assets with an initial individual cost of more than \$100 and an estimated life of more than three years.

Costs to acquire additional capital assets, which replace existing assets or otherwise prolong their useful lives, are generally capitalized

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Interest cost is capitalized as part of the historical cost of acquiring certain assets. To qualify for interest capitalization, assets must require a period of time before they are ready for their intended purpose. Interest earned on proceeds of tax-exempt borrowings arrangements restricted for the acquisition of qualifying assets is offset against interest cost to determine the net amount to be capitalized. Interest cost is not capitalized on costs paid with the proceeds of grants or donations restricted solely for construction.

Depreciation of capital assets-

Depreciation is provided using the straight-line method over an estimated useful live of 40 years for roads and highways, 50 years for bridges and transportation system and 10 years for equipment, vehicles and other.

Impairment of capital assets-

The Authority has implemented GASB No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. The objective of GASB 42 is to establish accounting and financial reporting standards for impairment of capital assets. A capital asset is considered

Notes to Financial Statements June 30, 2009 and 2008

impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries.

Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage among others.

The Authority evaluated its capital assets as required by GASB 42 and no impairment was identified during the years ended June 30, 2009 and 2008.

(vi) Claims and judgments -

The estimated amount of the liability for claims and judgments is recorded on the accompanying statements of net assets based on the Authority's evaluation of the probability of an unfavorable outcome in the litigation of such claims and judgments. The Authority consults with legal counsel upon determining whether an unfavorable outcome is expected. Because of uncertainties inherent in the estimation process, management's estimate of the liability for claims and judgments may change in the future.

(vii) Vacation and sick leave -

Employees earn annual vacation leave at the rate of 30 days per year up to a maximum permissible accumulation of 60 days for regular employees. Employees accumulate sick leave at the rate of 18 days per year. Sick leave is only payable if the regular employee resigns and has more than 10 years of employment, or retires and takes a pension. Maximum permissible accumulation for sick leave is 90 days for all employees, and the excess is paid within the next year. The Authority records as a liability and as an expense the vested accumulated vacation and sick leave as benefits accrue to employees.

(viii) Unamortized gains/losses on advance refunding -

Gains/losses resulting from current or advance refunding of debt are deferred and amortized over the shorter of the life of the new debt and the remaining life of old debt. The amount deferred is reported as a reduction of the debt and the amount amortized is reported as a component of interest expense.

(ix) Bond premiums/discounts and bond issuance costs -

Bond premiums/(discounts) are presented in the accompanying statements of net assets as an increase/reduction of the face amount of bonds payable. Bond issuance costs are presented as a deferred asset in the accompanying statements of net assets. The premiums/(discounts) and issuance costs are amortized over the life of the bonds on a method that approximates the effective interest method. Amortization related to bond premium/(discounts) was approximately \$22,091,600 and \$23,044,300 for the years ended June 30, 2009 and 2008, respectively, and is included as a component of interest expense in the accompanying statements of revenues, expenses and changes in net assets.

Notes to Financial Statements June 30, 2009 and 2008

Depreciation and amortization expense in the accompanying statements of revenues, expenses and changes in net assets includes amortization of bond issuance costs for the years ended June 30, 2009 and 2008 of approximately \$7,773,900 and \$8,427,300, respectively.

(x) Net assets -

Net assets are classified in the following four components in the accompanying statements of net assets:

Invested in Capital Assets, Net of Related Debt-

This component of net assets consist of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of this component of net assets. Rather, that portion of the debt is included in the same net asset component as the unspent proceeds.

Restricted for Debt Service-

Net assets restricted for debt service consists of restricted assets for payment of principal and interest related to bonds payable. This restriction is imposed by the bondholders through debt covenants.

Restricted for Construction-

Net assets restricted for construction consists of restricted assets for the specific purpose of financing the construction projects. This restriction is imposed by the grantors and contributors, as well as the bondholders through debt covenants.

Unrestricted-

Unrestricted net assets consist of net assets that do not meet the definition of "restricted for debt service", "restricted for construction" or "invested in capital assets, net of related debt".

(xi) Revenues recognition -

The Authority distinguishes operating revenues and expenses from non-operating items. Revenues associated with toll and train fares are recorded as operating revenues when cash is received. Expenses related to the administration and maintenance of toll highways and transportation system, repair and maintenance of roads and bridges, and administrative expenses are recorded as operating expenses. All other revenues and expenses are considered non-operating.

Non-operating revenues consist principally of gasoline, diesel, oil and petroleum taxes and vehicle license fees which are allocated to the Authority by the Commonwealth of Puerto Rico as approved by law to finance the acquisition and construction of capital assets and for the payment of the related debt. These taxes and fees are recorded as non-operating revenues at the moment of the Puerto Rico Treasury Department collect such taxes and inform the Authority of such collection.

(xii) Contributions -

Contributions are funds assigned by the federal and local governments, agencies and/or private companies such as Federal Highway Administration (FHWA), Federal Transit Administration (FTA), and Federal Emergency Management Agency (FEMA) to the Authority for the exclusive

Notes to Financial Statements June 30, 2009 and 2008

purpose of the construction of specific projects or infrastructure repairs and maintenance. Capital grants of the Authority are reported as non-operating revenues rather than contributed capital as required by GASB Statement No 33, Accounting and Financial Reporting for Nonexchange Transactions.

(xiii) Financial instruments -

The Authority uses derivative financial instruments to manage the economic impact of fluctuations in interest rates. The Authority follows the provision of Government Accounting Standards Board (GASB) Technical Bulletin No. 2003-1, Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets, in accounting for its derivative financial instruments.

(xiv) Use of estimates -

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

The implementation of Statement 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments (GASB No. 34) involved the use of assumptions and estimates in the determination of the cost of general infrastructure assets, such as roads, highways, bridges and land. The cost of such assets was estimated based on current costs for similar assets deflated using the general price index through the estimated average age of the assets.

(xv) Reclassifications -

Certain reclassifications have been made to the 2008 figures to conform to current year's presentation.

(xvi) Newly issued accounting pronouncements -

In June 2007, GASB issued Statement No. 51, "Accounting and Financial Reporting for Intangible Assets." This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The provisions of this statement are effective for periods beginning after June 15, 2009. Management has not completed its determination of the impact on the financial statements once the provisions of this statement are implemented.

In June 2008, GASB issued Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments". This statement requires the requires to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurements focus and the accrual basis of accounting. The statement also addresses hedge accounting requirements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management has not completed its determination of the impact on the financial statements once the provisions of this statement are implemented.

Notes to Financial Statements June 30, 2009 and 2008

(xvii) Risk financing -

The Authority carries commercial insurance to cover casualty, theft, claims and other losses. The current insurance policies have not been cancelled or terminated. The Authority has not settled any claims in excess of its insurance coverage during the three years. The Authority also pays premiums for workers compensation insurance to another component unit of the Commonwealth of Puerto Rico.

(2) Cash and cash equivalents:

Cash and cash equivalents at June 30, 2009 and 2008 consist of:

	2009	2008		
Cash on hand and in banks	\$ 5,856,485	\$	12,324,212	
Repurchase agreements	24,310,038		67,377,322	
Certificates of deposit	551,976		544,276	
Total	\$ 30,718,499	\$	80,245,810	

Cash and cash equivalents includes overnight deposits acquired under repurchase agreements with Economic Development Bank (EDB) and Government Development Bank (GDB) in the amounts of \$15 million and \$49 million at June 30, 2009 and 2008, respectively. These deposits are exempt from collateral and therefore are subject to custodian credit risk. The remaining balance of \$9 million and \$18 million at June 30, 2009 and 2008, respectively, of the repurchase agreements is collateralized by US Government Securities.

Notes to Financial Statements June 30, 2009 and 2008

(3) Accounts receivable:

Accounts receivable at June 30, 2009 and 2008 consist of:

	2009	2008		
Government agencies and other	\$ 56,009,919	\$	40,727,830	
Rent receivables	3,879,264		3,758,814	
Repairs to highways	1,329,768		1,291,234	
Other	 3,337,581		1,394,820	
Total	64,556,532		47,172,698	
Less allowance for doubtful accounts	 41,722,944		41,603,899	
Accounts receivable, net	\$ 22,833,588	\$	5,568,799	

(4) Restricted cash and investments with trustee:

Restricted cash and investments with Trustee at June 30, 2009 and 2008 consist of:

		 2009		2008
Cash and cash equivalents:				
Cash on hand and in banks		\$ 4,667,133	\$	4,817,17 1
Cash held by:				
Puerto Rico Treasury Department		19,723,037		21,465,640
Government Development Bank		8,151,426		3,774,574
Puerto Rico State Infrastructure				4
Bank Deposit		 9,423,367		8,561,048
Total		 41,964,963	\$	38,618,433
Cash and investments with trustee;				
Cash and cash equivalents		\$ 148,562,360	\$	335,837,098
Guaranteed investment contracts		348,369,351		337,881,130
US Government securities		253,676,115		63,335,882
Mortgage backed securities	`	 23,907,297	**********	9,710,077
Total		\$ 774,515,123	\$	746,764,187

Notes to Financial Statements June 30, 2009 and 2008

At June 30, 2009 and 2008 the above amounts were restricted to comply with long-term principal and interest debt service requirements or for construction of transportation facilities. These restricted assets are held by the Fiscal Agent under the Bonds Resolutions in the following funds and accounts:

1968 Reserve Account - Reserve for payment of principal of and interest on Highway Revenue Bonds in the event moneys in Bond Service Account or Redemption Account under Resolution 68-18 are insufficient for such purpose.

1968 Bond Service Account and Redemption Account (Sinking Fund under Resolution 68-18) - Current year requirements for principal and interest on Highway Revenue Bonds.

1998 Senior Reserve Account - Reserve for payment of principal and interest on Senior Transportation Revenue Bonds in the event moneys in Senior Bond Service Account Senior Bond Redemption Account under Resolution 98-06 are insufficient for such purpose.

1998 Senior Hand Service Account and Senior Bond Redemption Account (Senior Bond Sinking Fund under Resolution 98-06) - Current year requirements for principal and interest on Senior Transportation Revenue Bonds.

1998 Subordinated Reserve Fund - Reserve for payment of principal of and interest on Subordinated Transportation Revenue Bonds in the event moneys in Subordinated Bond Service Account or Subordinated Bond Redemption Account under Resolution 98-06 are insufficient for such purpose.

1998 Subordinated Bond Service Account and Subordinated Bond Redemption Account (Subordinated Bond Sinking Fund under Resolution 98-06) - Current year requirements for principal of and interest on Subordinated Transportation Revenue Bonds.

1998 Construction Fund - Special fund created by the Resolution 98-06. The proceeds of any Transportation Revenue Bonds issued for the purpose of paying the cost of acquiring or constructing transportation facilities, together with the money received from any other source for such purpose, except proceeds which are (i) applied to the repayment of advances, (ii) deposited in the 1998 Senior Bond Reserve Account or 1998 Subordinated Bond Reserve Fund, (iii) deposited in the 1998 Senior or Subordinated Bond Service Account as capitalized interest or (iv) used for the payment of financing expenses, shall be deposited in the 1998 Construction Fund and held by the Fiscal Agent in trust.

2004 Grant Anticipation Bond Reserve Account - Reserve for payment of principal and interest on 2004 Grant Anticipation Bonds in the event insufficient funds for such purpose are available in the Bond Payment Fund.

Notes to Financial Statements June 30, 2009 and 2008

At June 30, 2009 and 2008 amounts held by Fiscal Agent in the above accounts amounts to (in thousands):

	2009		 2008
1968 Reserve Account	\$	143,185	\$ 148,285
1968 Sinking Fund		89,275	87,781
1998 Senior Reserve Account		290,645	279,516
1998 Senior Sinking Fund		148,647	124,004
1998 Subordinated Reserved Fund		42,153	42,154
1998 Subordinated Sinking Fund		21,235	21, 111
1998 Contruction Fund		26,455	31,617
2004 Grant Anticipation Reserve Account		12,920	 12,297
Total	\$	774,515	\$ 746,765

Deposits in Puerto Rico Infrastructure Bank (SIB) represent funds held by Government Development Bank (GDB) related to the establishment of a state infrastructure bank account, which is dedicated solely to provide loans or other form of financial assistance consistent with the National Highway System Designation Act of 1995. The SIB is funded by a matching share agreement whereby on or before the date the Authority receives a Federal payment, the Authority must deposit an amount equal to at least 25% of such payment. These time deposits are held in the Authority's name.

(5) Deposits and investments:

The following disclose essential risk information about deposits and investments as required by Governmental Accounting Standard Board Statement No. 40, Deposits and Investments Risk Disclosures.

The Authority is restricted by law to deposit funds only in institutions approved by the Puerto Rico Treasury Department, and such deposits are required to be kept in separate accounts in the name of the Authority. Resolutions 68-18, 98-06 and 04-18 (the Bond Resolutions) require that moneys in the debt service funds be held by Bank of New York (the Fiscal Agent) in trust and applied as provided in the Bond Resolutions.

Pursuant to the Investment Guidelines for the Commonwealth adopted by Government Development Bank for Puerto Rico ("GDB"), the Authority may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, repurchase agreements, banker's acceptances, or in pools of obligations of the municipalities of Puerto Rico, among others. Monies in the sinking funds can only be invested in direct obligations of the United States government, or obligations unconditionally guaranteed by the United States government, and/or interest-bearing time deposits, or other similar arrangements, as provided by the Bond Resolutions.

Notes to Financial Statements June 30, 2009 and 2008

Custodian credit risk - deposits

For deposits, custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned to it. Under Puerto Rico statutes public funds deposited in commercial bank must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Sccretary of the Treasury of the Commonwealth of Puerto Rico. The bank balance of the Authority's deposit at June 30, 2009 and 2008 amounts to \$22.1 million and \$117.6 million, respectively.

As of June 30, 2009 and 2008, the Authority's custodial credit risk was approximately \$55.5 million and \$100.3 million, respectively, which is the bank balance of cash deposited, including repurchase agreements, at the Government Development Bank and Economic Development Bank for Puerto Rico and the Department of Treasury of the Commonwealth of Puerto Rico. These deposits are exempt from the collateral requirement established by the Commonwealth.

Custodian credit risk - investments

For an investment, custodial credit risk is the risk that in event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority invests in prime investments with a minimum quality rating of A1 Moody's or Standard and Poor's. In addition, investment in bond sinking funds are limited to investments in direct obligations of the United States government, or obligations unconditionally guaranteed by the United States government, and/or interest-bearing time deposits, or other similar attangements, as provided by the Bond Resolutions.

The Authority holds guaranteed investment contracts with a fair value of \$348 million and \$338 million at June 30, 2009 and 2008, respectively. These investments are guaranteed by US Government Securities.

Providers of guaranteed investment contracts as of June 30, 2009 and 2008 are as follows:

		2009	2008	
Societe Generale	\$	79,845,253	\$	79,729,203
Bank of New York		63,795,587		63,308,300
Banks of America		46,883,778		46,883,778
FSA Capital Management Service		44,674,424		44,674,425
Citigroup Financial Product, Inc.		40,092,954		39,414,850
First Union National Bank		-		37,358,373
Wachovia Bank NA		26,512,201		26,512,201
Westdeutsche Landesbank	-	46,565,154		
Total	. \$	348,369,351	\$	337,881,130

Notes to Financial Statements June 30, 2009 and 2008

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes to market interest rate. Maturities of restricted cash and investments with Trustee at June 30, 2009, are as follows:

	Maturiting From/To	Fair Market Value		
Cash and cash equivalents	N/A	\$ 148,562,360		
Guaranteed investments contracts	7/2009-7/2045	348,369,351		
US Government and agencies securities	12/2011-2/2023	253,676,115		
Mortgage backed securities	11/2014-1/2023	23,907,297		
Total		\$ 774,515,123		

All investments have been classified as Aaa by Standard & Poors.

(6) Advances to governmental entity:

Advances to governmental entity at June 30, 2009 and 2008, consist principally of advances made by the Authority to the Department of Transportation and Public Works of the Commonwealth of Puerto Rico ("DTPW") to carry-out its participation in the construction improvement program of the Authority. These advances are reduced by the Authority through charges made by DTPW for repairs and maintenance of roads and bridges.

Notes to Financial Statements June 30, 2009 and 2008

(7) Capital assets:

The following schedule summarizes the capital assets held by the Authority as of June 30, 2009 and 2008:

· ·	Balance at			Balance at	
	June 30, 2008	Increases	Decreases	June 30, 2009	
Assets not being depreciated:					
Land	\$ 1,812,808,155	\$ 8,986,974	\$ -	\$ 1,821,795,129	
Construction in progress	1,014,081,507	263,908,154	(352,119,218)	925,870,443	
Total .	2,826,889,662	272,895,128	(352,119,218)	2,747,665,572	
Assets being depreciated:					
Transportation system	2,419,375,826	•	344	2,419,375,826	
Roads	10,782,705,241	371,787,316	-	11,154,492,557	
Bridges	3,198,354,587	73,321,100	•	3,271,675,687	
Equipment, vehides and other	88,295,101	10,578,104	(1,796,677)	97,076,528	
Total	16,488,730,755	455,686,520	(1,796,677)	16,942,620,598	
Less acumulated depreciation	(7,994,130,760)	(394,072,253)	1,491,874	(8,386,711,139)	
Total asstes being depreciated	8,494,599,995	61,614,267	(304,803)	8,555,909,459	
Total capital assets	8 11,321,489,657	\$ 334,509,395	\$ (352,424,021)	\$ 11,303,575,031	
	Balance at			Balance at	
	Balance at June 30, 2007	Increases	Decreases	Balance at June 30, 2008	
Assets not being depreciated:		Increases	Decreases		
Assets not being depreciated:		Increases \$ 44,241,901	Decreases -		
	June 30, 2007			June 30, 2008	
Land	June 30, 2007 \$ 1,768,566,254	\$ 44,241,901	s -	June 30, 2008 \$ 1,812,808,155	
Land Construction in progress	June 30, 2007 \$ 1,768,566,254	\$ 44,241,901 398,728,768	\$ - (613,218,452)	June 30, 2008 \$ 1,812,808,155 1,014,081,507	
Land Construction in progress Total	June 30, 2007 \$ 1,768,566,254	\$ 44,241,901 398,728,768	\$ - (613,218,452)	June 30, 2008 \$ 1,812,808,155 1,014,081,507	
Land Construction in progress Total Assets being depreciated:	June 30, 2007 \$ 1,768,566,254	\$ 44,241,901 398,728,768 442,970,669	\$ - (613,218,452)	June 30, 2008 \$ 1,812,808,155 1,014,081,507 2,826,889,662	
Land Construction in progress Total Assets being depreciated: Transportation system	June 30, 2007 \$ 1,768,566,254	\$ 44,241,901 398,728,768 442,970,669	\$ - (613,218,452)	June 30, 2008 \$ 1,812,808,155 1,014,081,507 2,826,889,662 2,419,375,826	
Land Construction in progress Total Assets being depreciated: Transportation system Roads	June 30, 2007 \$ 1,768,566,254	\$ 44,241,901 398,728,768 442,970,669 395,177 566,835,619	\$ - (613,218,452) (613,218,452)	June 30, 2008 \$ 1,812,808,155 1,014,081,507 2,826,889,662 2,419,375,826 10,782,705,241	
Land Construction in progress Total Assets being depreciated: Transportation system Roads Bridges	June 30, 2007 \$ 1,768,566,254	\$ 44,241,901 398,728,768 442,970,669 395,177 566,835,619 64,339,955	\$ - (613,218,452) (613,218,452) (838,227)	June 30, 2008 \$ 1,812,808,155 1,014,081,507 2,826,889,662 2,419,375,826 10,782,705,241 3,198,354,587	
Land Construction in progress Total Assets being depreciated: Transportation system Roads Bridges Equipment, vehicles and other	June 30, 2007 \$ 1,768,566,254	\$ 44,241,901 398,728,768 442,970,669 395,177 566,835,619 64,339,955 1,408,792	(613,218,452) (613,218,452) (613,218,452)	June 30, 2008 \$ 1,812,808,155 1,014,081,507 2,826,889,662 2,419,375,826 10,782,705,241 3,198,354,587 88,295,101	
Land Construction in progress Total Assets being depreciated: Transportation system Roads Bridges Equipment, vehicles and other Total	\$ 1,768,566,254 1,228,571,191 2,997,137,445 2,418,980,649 10,215,869,622 3,134,852,859 89,510,531 15,859,213,661	\$ 44,241,901 398,728,768 442,970,669 395,177 566,835,619 64,339,955 1,408,792 632,979,543	(613,218,452) (613,218,452) (613,218,452) (838,227) (2,624,222) (3,462,449)	\$ 1,812,808,155 1,014,081,507 2,826,889,662 2,419,375,826 10,782,705,241 3,198,354,587 88,295,101 16,488,730,755	

The Authority capitalized interest for approximately \$33.5 million and \$44.2 million during the years ended June 30, 2009 and 2008, respectively.

Notes to Financial Statements June 30, 2009 and 2008

(8) Bonds payable:

The bond resolutions authorize the issuance of revenue bonds to obtain funds to pay the construction and related costs of transportation facilities. Bonds outstanding under the bond resolutions at June 30, 2009 and 2008, consist of:

	2009	2008
RESOLUTION 68-18:	,	
Serial bonds, maturing through 2034 with interest		
ranging from 3.30% to 6.50%	\$ 846,655,000	\$ 888,005,000
Term bonds, maturing through 2039 with interest		
ranging from 4.00% to 6.00%	733,670,000	733,670,000
Capital appreciation bonds, maturing through 2026		
with interest ranging from 4.36% to 4.58%	22,839,669	21,836,622
RESOLUTION 98-06:		
Serial bonds, maturing through 2037 with interest		
ranging from 2.25% to 5.75%	1,915,630,000	1,951,630,000
Term bonds, maturing through 2046 with interest		•
ranging from 2.25% to 5.75%	2,208,795,000	2,208,795,000
Capital appreciation bonds, maturing through 2026		
with interest ranging from 4.47% to 5.08%	88,951,198	84,747,191
LIBOR based interest rate bonds		
maturing through 2045	389,060,000	389,060,000
Consumer Price Index based interest rate bonds		
maturing through 2028	57,965,000	57,965,000
LIBOR based interest rate bonds	•	
maturing on August 2009 (See note 16)	400,000,000	400,000,000
Subtotal	\$6,663,565,867	\$ 6,735,708,813

Notes to Financial Statements June 30, 2009 and 2008

	 2009	2008		
Subtotal from previous page	\$ 6 ,663, 565 , 867	\$6,735,708,813		
RESOLUTION 04-18: Serial bonds, maturing through 2021 with interest				
ranging from 2.25% to 5.00%	 114,585,000	121,175,000		
Total bonds outstanding	6,778,150,867	6,856,883,813		
Add net unamortized premium	370,249,091	392,340,731		
Less unamortized loss on advance refundings	 (114,969,397)	(120,585,361)		
Net bonds payable	 7,033,430,561	7,128,639,183		
Less current portion	(104,090,000)	(83,940,000)		
Long-term portion	\$ 6,929,340,561	\$7,044,699,183		

The bonds are secured by a pledge of the gross receipts of the gasoline excise taxes and one half of the diesel oil excise taxes, a maximum of \$11 million monthly (but not more than \$120 million annually) derived from excise taxes over crude oil and its derivatives, \$15 per vehicle per year from motor vehicle license fees, the proceeds of any other taxes, fees or charges which the Legislature of Puerto Rico may allocate to the Authority in the future and which the Authority may pledge, proceeds of any tolls or other charges which the Authority may impose for the use of any of its traffic facilities and certain investment earnings.

The proceeds of the gasoline tax, the gas oil and diesel oil tax, the caude oil tax and the motor vehicle license fees allocated to the Authority are available taxes and revenues under the Constitution of the Commonwealth of Puerto Rico. Accordingly, if needed, they are subject to being applied first to the payment of debt service on the public debt of the Commonwealth, but such taxes and license fees are to be used for such payments only if and to the extent that all other available revenues of the Commonwealth under the Constitution are insufficient for such purpose. The Commonwealth has never applied these revenues for such payments.

The Bond Resolutions further provide that receipts of pledged revenues be deposited in certain accounts with the Fiscal Agent for the payment of interest and principal of the bonds outstanding.

Nothing in the Bond Resolutions is to be construed as preventing the Authority from financing any facilities authorized by the Act that created the Authority, as amended, through the issuance of bonds or other obligations, which are not secured under the provisions of the Bond Resolutions.

On May 1, 2008, the Authority issued \$400 million of Subordinated Transportation Revenue Bonds (Series 2008A). The Proceeds from the Series 2008A were used to repay the Subordinated Transportation Revenue Bonds from Series 2006A, 2007A and 2007B.

Notes to Financial Statements June 30, 2009 and 2008

A summary roll forward of bonds payable at June 30, 2009 and 2008, are as follows:

			June 30, 2009		
	Balance 2008	Issuance accretions	Payments amortization	Balance 2009	Current portion
Serial bonds:					
Resolution 68-18	\$ 888,005,000	\$ -	\$ (41,350,000)	\$ 846,655,000	\$ 43,920,000
Resolution 98-06	1,951,630,000	-	(36,000,000)	1,915,630,000	53,400,000
Resolution 04-18	121,175,000		(6,590,000)	114,585,000	6,770,000
Total	2,960,810,000		(83,940,000)	2,876,870,000	104,090,000
Term binds:					
Resolution 68-18	733,670,000	-	-	733,670,000	
Resolution 98-06	2,208,795,000			2,208,795,000	•
Total	2,942,465,000			2,942,465,000	-
Bond anticipation					
note	400,000,000	. •	•	400,000,000	-
CPI based					
interest rate bonds:					
Resolution 98-06	57,965,000	-	-	57,963,000	-
LIBOR based					
interest rate bonds:		•			
Resolution 98-06	389,060,000	-	-	389,060,000	<u></u>
Capital appreciation bonds:				-	
Resolution 68-18	21,836,622	1,003,047	•	22,839,669	-
Resolution 98-06	84,747,191	4,204,007	-	88,951,198	-
Total	106,583,813	5,207,054	-	111,790,867	-
Total bonds					
outstanding	\$, 6,856,883,813	\$ 5,207,054	\$ (83,940,000)	\$ 6,778,150,867	\$ 104,090,000

Notes to Financial Statements June 30, 2009 and 2008

	June 30, 2008					
	Balance 2007	,		Balance 2008	Current portion	
Serial bonds:						
Resolution 68-18	\$ 926,025,000	\$ -	\$ (38,020,000)	\$ 888,005,000	\$ 41,350,000	
Resolution 98-06	1,973,255,000	_	(21,625,000)	1,951,630,000	36,000,000	
Resolution 04-18	127,550,000		(6,375,000)	121,175,000	6,590,000	
Total	3,026,830,000		(66,020,000)	2,960,810,000	83,940,000	
Term bonds:						
Resolution 68-18	733,670,000	•	-	733,670,000	-	
Resolution 98-06	2,208,795,000	_	.	2,208,795,000	-	
Total	2,942,465,000			2,942,465,000		
Bond anticipation						
note	-	400,000,000	-	400,000,000	-	
CPI based						
interest rate bonds:						
Resolution 98-06	57,965,000	. •	-	57,965,000	-	
LIBOR based						
interest rate bonds:						
Resolution 98-06	589,060,000	200,000,000	(400,000,000)	389,060,000	-	
Capital appreciation bonds:		,				
Resolution 68-18	20,580,609	1,256,013		21,836,622	_	
Resolution 98-06	80,495,105	4,252,086	-	84,747,191	-	
Total	101,075,714	5,508,099		106,583,813		
Total bonds			,			
outstanding	§ 6,717,395,714	\$ 605,508,099	\$ (466,020,000)	\$ 6,856,883,813	\$ 83,940,000	

Notes to Financial Statements June 30, 2009 and 2008

The LIBOR based interest rate bonds consist of \$389 million of the 2007 Series N. The Series N LIBOR Bonds bear interest from their date of delivery at a per annum rate for each period equal to (a) 67% of the Three-Month LIBOR Rate for such period plus (b) a per annum spread equal to 0.53%. In each case the LIBOR-based interest rate cannot exceed the maximum rate permitted under Puerto Rico law (currently 12%).

The Series 2008A LIBOR bonds (Bond Anticipation Note) matured in August 2009 and bear interest at the index of one month LIBOR plus a spread of 225 base points not to exceed 12%. The maturity date was subsequently extended. (See note 16).

Interest on the Consumer Price Index ("CPI") Bonds will be payable on the first Business Day of each month commencing on July 2, 2007. The CPI Rate, which will be reset monthly, is an interest rate based on changes in the CPI and cannot exceed the maximum rate permitted under the Puerto Rico law (currently 12%).

In connection with the issuance of the CPI, LIBOR bonds and USD SIFMA index based interest rate bonds, the Authority has entered into interest rate swap agreements. In general, the swap agreements provide that, subject to the terms thereof, the Authority will pay to the swap provider a fixed rate and the swap provider will pay to the Authority a floating rate based on the CPI or LIBOR rate, based on a notional amount equal to the principal amount of the CPI and LIBOR bonds outstanding. The purpose of the swap agreement is generally to convert the Authority's floating rate obligations with respect to the CPI and LIBOR bonds to fixed rate obligations.

(i) Interest rates swap agreements

In order to protect against the potential of rising interest rates, the Authority entered into pay-fixed, receive-variable interest rate swap agreements in the following bonds; \$389 million LIBOR based interest rate bonds; \$200 million USD SIFMA Swap Index based interest rate bonds and \$57 million CPI based interest rate bonds. The counterparties are Citibank, N.A, ("Citibank), Morgan Stanley Capital Services, Inc ("Morgan") and UBS Financial Services ("UBS").

Notes to Financial Statements June 30, 2009 and 2008

(ii) Terms, and fair values

The credit ratings of the counterparties, terms and fair value of the outstanding swaps as of June 30, 2009, are as follows:

Counter Party	Rating (1)	Notional Amount	Effective Date	Fixed Rate	Variable Rate	Termination Date		Pair Value
Citibank	A1/Λ+/ ΄ A+	\$ 233,440,000	March 6 2007	4.106%	67% of Libor Interest Rate plus a spread of .53%	July 1, 20 4 5	8	(37,461,220)
Ciribank	A1/A+/ A+	\$ 155,620,000	March 6 2007	4.107%	67% of Libor Interest Rate plus a spread of .53%	July 1, 2041	\$	(24,280,585)
Morgan	A2/A/A A-	\$ 57,965,000	March 6, 2007	4.050%/ 4.060%	Consumer price index rate plus a spread of 1.12%	July 1, 2027/ July 1, 2028	\$	(2,831,972)
Morgan	A2/A/A A-	\$ 150,000,000	May 27, 2008	4.06%	USD SIFMA Swap Index less a spread of .5%	July 1, 2028	\$	(18,404,468)
UBS	Aa2/A+/ A+	\$ 50,000,000	May 27, 2008	4.37%	USD SIFMA Swap Index less a spread of .5%	July 1, 2028	\$	5,818,107

⁽¹⁾ Moody's Investors Service, Standard & Poor's and Fitch, respectively.

The notional amounts of the swaps match the principal amount of the associated debt. The swap agreements contain scheduled reductions to outstanding notional amounts that follow scheduled reductions in the associated debt.

(iii) Fair values

Relevant market interest rates as of June 30, 2009, valuation date of the swaps, were lower than market interest rate on the effective date of the swaps. Consequently, as of the valuation date the swaps had a negative fair value. The fair values listed in the above table represent the theoretical cost of terminating the swaps. The fair values were provided by the counterparties and were estimated using Counter party's internal present value models.

Notes to Financial Statements June 30, 2009 and 2008

<u>Credit risk</u> - Because all of the Authority's swaps rely upon the performance of the third parties who serve as swap counterparties, the Authority is exposed to credit risk, or the risk that swap counterparty fails to perform according to its contractual obligations. The appropriate measurement of this risk at the reporting date is the fair value of the swaps, as shown in the columns labeled Fair Value in the tables above. When the fair value is positive the Counterparty owes the Authority, which creates a credit risk for the Authority. When the fair value is negative the Authority owes the Counterparty and therefore the Authority does not possess credit risk. The Authority minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties whose credit rating is acceptable under the investment policies of the Authority.

Termination risk - The Authority's swap agreements do not contain any out-of-the-ordinary termination events that would expose it to significant termination risk. In keeping with market standards the authority or the counterparty may terminate each swap if the other party fails to perform under the terms of the contract. In addition, the swap documents allow either party to terminate in the event of a significant loss of creditworthiness. The Authority views such events to be remote at this time. If the swap is terminated, the variable-rate bond would no longer carry a fixed interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

Rollover risk - the Authority is not exposed to rollover risk since the due date of the swaps is the same due date of the related bonds.

(iv) Debt maturities

The outstanding bonds as of June 30, 2009 require future payments of principal and interest as follows:

Fiscal year ended June 30,		Principal		Interest	 Total
2010	\$	104,090,000	\$	307,620,077	\$ 411,710,077
2011		220,095,000		341,173,668	561,268,668
2012		429,980,000		331,201,715	761,181,715
2013		157,645,000		324,469,931	482,114,931
2014		166,090,000		315,948,452	482,038,452
2015 to 2019		932,074,118		1,493,039,025	2,425,113,143
2020 to 2024		961,386,296		1,214,811,973	2,176,198,269
2025 to 2029		840,495,453		990,407,529	1,830,902,982
2030 to 2034	1	,051,385,000		718,971,239	1,770,356,239
2035 to 2039	1	,170,400,000		426,612,295	1,597,012,295
2040 to 2044		618,155,000		163,305,198	781,460,198
2045 to 2047		126,355,000	_	16,577,873	 142,932,873
Total	\$ (,778,150,867	\$	6,644,138,975	\$ 13,422,289,842

Notes to Financial Statements June 30, 2009 and 2008

For variable interest rate bonds included above, the debt service requirements and net swap payments were computed assuming current interest rates remain the same for their term. As rates vary, variable-rate bond interest payments and net swap payments will vary.

(v) Debt refunding

The outstanding balances as of June 30, 2009 and 2008 of the bond issues defeased by the Authority are as follows:

	 2009	 2008
Series Y	\$ 444,180,000	\$. 451,180,000
Series D	548,575,000	548,575,000
Series K	485,105,000	492,780,000
Series B	452,600,000	443,810,000
Series A	53,485,000	416,400,000
Scrice G	290,770,000	290,770,000
Series I	269,100,000	273,340,000
Series C	-	14,880,000
Series H	 9,905,000	 9,905,000
Total outstanding defeased bond issues	\$ 2,553,720,000	\$ 2,941,640,000

Notes to Financial Statements June 30, 2009 and 2008

(9) Borrowings under lines of credit:

At June 30, 2009 and 2008, lines of credit consist of the following:

Description	2009	2008
(a) Non-revolving line of credit of up to \$122,113,000 bearing interest at the Government Development Bank cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (4.24% at June 30, 2009), which expires on September 30, 2010. (See note 16)	\$ 122,113,000	\$ -
(b) Non-revolving line of credit of up to \$25,000,000 bearing interest at the Government Development Bank cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (2.68% at June 30, 2009), which expires on September 30, 2010. (Scc note 16)	25,000,000	
(c) Non-revolving line of credit of up to \$140,000,000 bearing interest at the Government Development Bank cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (4.24% at June 30, 2009), which expires on September 30, 2010. (See note 16)	140,000,000	83,570,729
Subtotal	\$ 287,113,000	\$ 83,570,729

Notes to Financial Statements June 30, 2009 and 2008

Description	2009	2008
Subtotal from previous page	\$ 287,113,000	\$ 83,570,729
d) Non-revolving line of credit of up to \$15,000,000 bearing interest at the Government Development Bank cost of funding for tax exempt or variable rate loan transactions plus a margin of 125 basis points (2.43% at June 30, 2009), which due on September 30, 2010. (See note 16)	15,000,000	/ ~
e) Non-revolving line of credit of up to \$78,300,000 bearing interest at prime rate plus a margin of 150 basis points (4.75% at June 30, 2009), maturing on June 30, 2011.	49,200,000	
Total	\$ 351,313,000	\$ 83,570,729

(10) Retirement plan:

Substantially all the Authority's employees participate in the Retirement System of the Commonwealth of Puerto Rico ("the System"), a cost sharing multi-employer defined benefit pension plan. The payroll for employees covered by the System for the years ended June 30, 2009 and 2008 was approximately \$78 million and \$73 million, respectively.

All Authority's employees, who at the time of employment are 55 years old or less, are eligible to participate in the System. Employees who retire at or after age 55 with 25 years of credited service or age 58 with 10 years of credited service are entitled to a retirement benefit, payable each month for life, computed based on a benefit rate set forth by Commonwealth statute.

The System also provides death and disability benefits established by Commonwealth statute. Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Authority is required by the same statute to contribute 9.275% of the participant's gross salary.

On September 24, 1999, an amendment to Act No. 447 of May 1, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Employees joining the Authority on or after January 1, 2001, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

Notes to Financial Statements June 30, 2009 and 2008

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that takes into account each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) and investment income as defined in the Plan. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000.

Total employer contributions (rounded) for the years ended June 30, 2009, 2008 and 2007 were approximately as follows:

	2009	2008	2007
Traditional Plan	4,553,000	4,523,000	4,723,000
System 2000	2,619,000	2,297,000	2,146,000

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2009 and 2008, a copy of which can be obtained from the Retirement System Administration, Minillas Station, P.O. Box 42003, San Juan, PR 00940.

The Authority has a labor union contract that provides all union employees who work for the Authority upon retirement with the following lump-sum bonus payable at the retirement date computed as follows:

Years worked	Amount	
10-15 years	\$170 per year of service	
16-20	\$200 per year of service	
21-25	\$225 per year of service	
26-30	\$250 per year of service	

In addition, management employees have similar benefits under the same conditions granted to labor union personnel, as detailed above.

Notes to Financial Statements June 30, 2009 and 2008

(11) Other post-employment benefits:

The Authority has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions" ("GASB 45"). This Statement establishes the standards for the measurement, recognition, and display of Other Postemployment Benefits ("OPEB") expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information ("RSI") in the financial reports of state and local governmental employers.

Postemployment benefits are part of an exchange of salaries and benefits for employee services rendered. Most OPEB have been funded on a pay-as-you-go basis and have been reported in financial statements when the promised benefits are paid. GASB 45 requires state and local government's financial reports to reflect systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with the OPEB and whether and to what extent progress is being made in funding the plan.

(i) Plan description

The Authority agreed to provide medical, pharmacy, dental and vision medical insurance coverage to eligible retirees, its spouses and dependents, for a period of two years after retirement as a single employer defined benefit Other Post Employment Benefit Plan ("The Plan"). The Plan can be amended by action of the Authority subject to applicable collective bargaining and employment agreements. The Plan does not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

(ii) Funding policy

The obligations of the plan members employer are established by action of the Authority pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement. The Authority currently contributes enough money to the plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the plan are paid by the Authority

(iii) Annual OPEB cost and net OPEB obligation

The Authority's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer ("ARC"). The Authority has engaged an actuary to calculate the ARC and related information per the provisions of GASB Statement 45 for employers in the Plan with more than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Notes to Financial Statements June 30, 2009 and 2008

The following table shows the components of the Authority's annual OPEB cost for the year ended June 30, 2009, the amount actually contributed to the plan, and the Authority's net OPEB obligation to the Plan at June 30, 2009:

Annual required contribution (ARC)	\$ 889,461
Interest on net OPEB obligation	(12,044)
Adjustment to annual required contribution	 14,923
Annual OPEB cost (expense) (AOC)	892,340
Contribution made	 507,600
Increase (decrease) in net OPEB obligation	 384,740
Net OPEB asset, beginning of year	 (240,879)
Net OPEB obligation, end of year	\$ 143,861

The Authority's annual OPEB cost, percentage of annual OPEB cost contribution to the plan, and net OPEB obligation for the year ended June 30, 2009 and 2008 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset / (Obligation)
2008	889,461	127%	240,879
2009	889,461	56%	(384,740)

As of June 30, 2009, the actuarial accrued liability for benefits was \$7,068,000 all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$76,659,000 and \$68,714,000 during the years ended June 30, 2009 and 2008 respectively, and the ratio of the unfunded actuarial accrued liability to the covered payroll was approximately nine percent (9%) and ten percent (10%), as of June 30, 2009 and 2008, respectively.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

(iv) Methods and assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to the point. The methods and assumptions used

Notes to Financial Statements June 30, 2009 and 2008

include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The valuation date was June 30, 2008 and the Projected Unit Credit Cost Method was used. The actuarial assumptions were based on a set of assumptions modified to the Authority.

Turnover rates were taken from a standard actuary table, T-5. This table was chosen so as to match the Authority historical turnover experience. Retirement rates were also based on recent Authority experience, but are less reliable due to the size of the current retiree group and the relative newness of the program. Both the retirement rates and turnover assumption will be reviewed in the next valuation to make sure they are tracking well with the actual experience.

A discount rate of 5% was used. This rate is the best actuarial estimate of expected long-term experience and is in accordance with guidelines for selection of these rates under GASB 45. The healthcare trend rates are based on the actuarial knowledge of the general healthcare environment and the specific coverage offered by the Authority.

(12) Commitments and contingent liabilities;

(i) Construction

As of June 30, 2009 and 2008, the Authority had commitments for approximately \$662 million and \$733 million, respectively, related to construction contracts.

(ii) Leases

The Authority has various non-cancelable operating leases for office space with the Puerto Rico Public Buildings Authority and other lessors, the latest of which expires in June 2022. The rental expense for the years ended June 30, 2009 and 2008, were approximately \$1,082,000 and \$966,000, respectively. Future rental payments as of June 30, 2009 under these leases are as follows:

Year ending June 30,		
2010	\$	791,000
2011	•	791,000
2012		791,000
2013		791,000
2014		791,000
2015 to 2019		3,955,000
2020 to 2022		1,582,000
Total future rental payments required	\$	9 492 000

Notes to Financial Statements June 30, 2009 and 2008

(iii) Litigation

Urban Train

On December 24, 2003, Siemens Transportation Partnership Puerto Rico S.E. ("STT") and others filed legal claims against the Authority in the amount of approximately \$50 million for damages, amounts withheld, acceleration of work and other causes of action in connection with the construction of the Urban Train Project.

On November 24, 2004, the Authority filed a counter claim against STT for liquidating clamages as stipulated in the contract in the amount of \$100 million. The Authority amended its counter claim on November 17, 2008 to include other credits against STT. Therefore, the total claimed damages were increased to \$233 million.

Under the contractual obligations between STT and the Authority, STT was responsible to defend, indemnify and hold harmless the Authority from claims asserted by third parties against the agency for the acts and omissions by STT, or any of its subcontractors, in the Project Presently, some Alignment Section Contractor (ASC's) have asserted claims against the Authority for damages suffered in part by STT actions or omissions amounting to \$150 million, approximately.

On September 22, 2005, the Authority filed a third party complaint for breach of contract, liquidated damages and others against various ASC's in the amount of \$25 million.

On April 20, 2007, the Administrative Judge designated this case as a complex litigation and remitted it to the Chief Justice of the Supreme Court who has to assign a presiding judge for the case. The parties are still awaiting such designation.

On August 28, 2008, STT amended its complaint to adjust the amount claimed to \$114 million.

On April 21, 2009, in accordance to the calendar approved by the Court through its Order dated May 6, 2009, the PRHTA field an Amended Third Party Complaint in which, aside from amending its allegation to the already appearing parties, the guarantors and sureties and assurance companies were brought to the case.

In the opinion of legal counsel, although discovery up to date has shown that it is unlikely that STT will prevail in its allegation against the Authority, due to the complexities of the case it is not possible to estimate the amount of any potential loss.

Redondo Construction

Redondo Construction filed legal claims against the Authority in the amount of approximately \$38.1 million for damages, additional compensation, unpaid claims, prejudgment interests and others causes of actions related to various construction contracts. The Bankruptcy Court entered judgment on August 31, 2009. See Note 16.

Notes to Financial Statements June 30, 2009 and 2008

Others

The Authority is defendant or co-defendant in various lawsuits for alleged damages in cases principally related to construction projects. These are generally either fully or partially covered by insurance. The contractors are required, under the terms of the construction agreements, to carry adequate public liability insurance and to hold harmless the Authority from lawsuits brought on account of damages relating to the construction of the projects.

The Authority, based on legal advice, has recorded an adequate provision to cover probable losses on those claims not fully covered by insurance. In the opinion of legal counsel, any liability in excess of the insurance coverage and/or the recorded provision that may arise from such claims would not be significant to affect to the Authority's financial position or results of operations

(iv) Special Facility Revenue Bonds

On December 20, 1992, the Authority and Autopistas de Puerto Rico y Compañía S.E. ("Autopistas") entered into a concession agreement ("the Concession Agreement"), amended in 1992, and again in 2004, for the design, construction, operation and maintenance of the Teodoro Moscoso Bridge ("the Bridge"), a toll bridge, which traverses the San Jose Lagoon between the municipalities of San Juan and Carolina. Autopistas designed and constructed the Bridge and commenced operating the Bridge on February 23, 1994. The initial term of this agreement is 35 years, expiring on April 3, 2027.

In March 1992, the Authority issued Special Facility Revenue Bonds, 1992 Series A, B and C amounting to approximately \$117 million for the purpose of facilitating the construction of the Bridge. The proceeds from the sale of the bonds were transferred by the Authority to Autopistas, the borrower, pursuant to a loan agreement (the Loan Agreement) by and between Autopistas and the Authority.

On October 30, 2003, the Authority issued Special Facility Revenue Refunding Bonds, 2004 Series A amounting to approximately \$153 million for the purpose of refunding the Authority's Special Facility Revenue Bonds, 1992 Series A, B, and C, which were issued to fund the construction of the Bridge, and to pay the cost of issuance of the bonds. The proceeds from the sale of the bonds were transferred by the Authority to Autopistas, pursuant to a new loan agreement by and between Autopistas and the Authority.

Under certain circumstances, the Concession Agreement may be terminated and the Authority is then obligated to assume all of the Autopistas's obligations to pay principal of, and interest on, the bonds outstanding, which pursuant to the Loan Agreement will be paid from the net revenues of the use and operation of the Bridge. The Authority does not currently expect the Concession Agreement to terminate. The outstanding bonds (including accrued interest) at June 30, 2009 and 2008, amounted to approximately \$158 million and \$153 million, respectively.

(v) Federal assistance programs

The Authority participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, or to compliance audits by grantor agencies.

Notes to Financial Statements June 30, 2009 and 2008

(13) Operation and maintenance of urban train system:

The Authority entered into a System and Test Track Turnkey Contract ("STTT Contract") with Siemens Transportation Partnership Puerto Rico, S.E., Juan R. Requena y Asociados, and Alternate Concepts, Inc. (all together known as "Siemens") for the purpose of operating and maintaining the Tren Urbano. During 2005, the STTT Contract became effective upon the execution of the contract for an initial term of five years with an option by the Authority to extend the term for an additional five years. The compensation is based on a schedule included in the master agreement which approximate \$4 million on a monthly basis. The total annual operation and maintenance cost, including cost of insurance and electricity, for fiscal years 2009 and 2008 was approximately \$80.1 million and \$80.4 million, respectively.

Integrated transportation system

Costs incurred in connection with the integrated transportation system financed in part by the Authority during the years ended June 30, 2009 and 2008 are as follows:

	.2009	2008
Metrobus II	\$ 13,654,546	\$ 23,200,000
Metrobus I	13,574,363	5,568,799
Other		938,731
Total	\$ 27,228,909	\$ 29,707,530

As authorized by Resolution 2007-40, the Authority contracted the Metropolitan Bus Authority (AMA), a public corporation of the Commonwealth of Puerto Rico, to operate the service known as Metrobus II which consists of a feeder bus service of 21 AMA routes that were changed to service the Urban Train stations. This feeder bus service is considered a key strategy for increasing rail ridership.

On April 8, 2009, by Resolution 2009-06, the Authority cancelled the contract with AMA related to Metrobus II service.

Metrobus I service consist of two express routes, Metrobus Route I and Metrobus Expreso, which provides service between the University of Puerto Rico and Old San Juan. The Authority contracted First Transit to operate this service. The service is provided seven days a week using 24 buses owned by First Transit.

Notes to Financial Statements June 30, 2009 and 2008

(14) Impact fee and other:

Impact fee and other for the years ended June 30, 2009 and 2008 consist of:

	2009	2008
Impact fee	\$ 6,220,122	\$ 11,935,457
Electronic toll label sales and fines fees	2,462,060	2,242,252
Metrobus fare fees	569,766	885,486
Other	2,226,274	1,227,538
Total	\$ 11,478,222	\$ 16,290,733

The Authority charges a fee to real estate developers for the impact the new development will have on the Authority's transportation facilities.

(15) Transfers and construction work performed for other government agencies:

During the years ended June 30, 2009 and 2008, the Authority transferred cash and performed construction work on behalf of other government agencies, which are related mainly to repairs, maintenance and improvements of government buildings and other areas in the amount of \$3,051,415 and \$55,782,979, respectively.

(16) Subsequent events:

- a) On July 8, 2009, the Authority extended the maturity date to September 30, 2010 of the non-revolving line of credits that matured on June 30, 2009.
- b) On August 27, 2009, the Authority extended the maturity date of the \$400,000,000 LIBOR based interest rate bonds (See note 8) as follows; \$300,000,000 maturing December 21, 2009 and \$100,000,000 maturing August 30, 2011. On December 21, 2009 the maturing date of the \$300,000,000 was extended to August 30, 2011 with an option to extend the maturity until August 30, 2013.
- c) On August 31, 2009 the Bankruptcy Court entered judgment in favor of Redondo Construction for approximately \$22.2 million plus prejudgment interest at 6% to 6.5%. The Authority filed several post judgment motions to amend judgment and to oppose prejudgment interests.

On December 11, 2009, the Bankruptcy Court concluded that one of the cases where judgment was entered against the Authority for approximately \$10 million, was not related to the bankruptcy proceedings. Therefore, the case was referred to the Federal District Court. The Federal District Court will review the case and determine if the judgment entered by the Bankruptcy Court will prevail otherwise, additional hearings may be scheduled. See related Note 12 (iii).

Notes to Financial Statements June 30, 2009 and 2008

During December, 2009 the Authority was served with another claim from Redondo Construction for economic damages of approximately \$40.0 million, however this claim is in a very preliminary stage.

The Authority, based on legal advice, has recorded an adequate provision to cover probable losses on these claims.

d) Since October, 2009 the Authority has received approximately \$4.5 million from the American Recovery and Reinvestment Act of 2009 (ARRA). ARRA has authorized \$105 million for the Puerto Rico Highway Program and \$14 million for Transit Projects. Such funds are available for disbursements for fiscal years 2009 through 2011.

Puerto Rico Highways and Trasnportation Authority

(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Funding Progress for Retiree Health Plan Year ended June 30, 2009

Actuarial valuation date - June 30, 2008		
Actuarial accrued liability		
Active participants	\$ 6,615	,104
Retires participants	453	,303
Total	7,068	,407
Actuarial value of plan assets Unfunded actuarial accrued liability	\$ 7,068	,407
Funded ratio	\	0%
Covered payroll	\$ 76,659	,320
Ratio of unfunded actuarial accrued liability		9%



Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

Hon. Ruben Hernandez Gregorat, Secretary Department of Transportation and Public Works, Commonwealth of Puerto Rico Kevane Grant Thornton LLP 33 Calle Balkia Ste 400 San Juan, Puerto Rico 00917-2013 T +1 787 754 1915 F +1 787 751 1284 Venus Kevane Comi

We have audited the financial statements of the Puerto Rico Highways and Transportation Authority (the Authority) as of and for the year ended June 30, 2009 and have issued our report thereon dated December 22, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of perforining their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiencies described in items 09-01 through 09-05 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that the significant deficiency described in item 09-01 is also material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of Authority, in a separate letter dated December 22, 2009.

This report is intended solely for the information and use of the Authority's management, the audit committee, the U.S. Department of Transportation and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kevane Drant Thornton LLP

San Juan, Puerto Rico, December 22, 2009.

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Municipal Secondary Market Disclosure Information Cover Sheet Municipal Securities Rulemaking Board (MSRB) Electronic Municipal Market Access System (EMMA)

IF THIS FILING RELATES TO A SINGLE BOND ISSUE:	
Provide name of bond issue exactly as it appears on the cover of the Official Stat (please include name of state where issuer is located): .	
Provide nine-digit CUSIP* numbers if available, to which the information relates	s:
IF THIS FILING RELATES TO ALL SECURITIES ISSUED BY TA SPECIFIC CREDIT OR ISSUED UNDER A SINGLE INDENTU	
Issuer's Name (please include name of state where Issuer is located): Puerto Ri	
Other Obligated Person's Name (if any):	
(Exactly as it appears on the Official Statement Cover)	
Provide six-digit CUSIP* number(s), if available, of Issuer: 745180, 7451800, 7451800, 7451800, 7451800, 7451800, 7451800, 7451800, 7451800, 7451800, 7451800, 7451800, 7451800, 74518000, 74518000, 745180000, 74518000000000000000000000000000000000000	45181, 745185 and 745190
WHAT TYPE OF INFORMATION ARE YOU PROVIDING? (Che	ok all that apply)
A. Annual Financial Information and Operating Data pursuant to Rule	
Fiscal Period Covered:	
B. Audited Financial Statements or CAFR pursuant to Rule 15c2-12 Fiscal Period Covered: 2009-2010	
C. Notice of a Material Event pursuant to Rule 15c2-12 (Check as appropriate of a Material Event pursuant to Rule 15c2-12 (Check as appropriate of a Material Event pursuant to Rule 15c2-12 (Check as appropriate of a Material Event pursuant to Rule 15c2-12 (Check as appropriate of a Material Event pursuant to Rule 15c2-12 (Check as appropriate of a Material Event pursuant to Rule 15c2-12 (Check as appropriate of a Material Event pursuant to Rule 15c2-12 (Check as appropriate of a Material Event pursuant to Rule 15c2-12 (Check as appropriate of a Material Event pursuant to Rule 15c2-12 (Check as appropriate of a Material Event pursuant to Rule 15c2-12 (Check as appropriate of a Material Event pursuant to Rule 15c2-12 (Check as appropriate of a Material Event pursuant to Rule 15c2-12 (Check as appropriate of a Material Event pursuant to Rule 15c2-12 (Check as appropriate of a Material Event pursuant to Rule 15c2-12 (Check as appropriate of a Material Event pursuant to Rule 15c2-12 (Check as appropriate of a Material Event pursuant to Rule 15c2-12 (Check as appropriate of a Material Event pursuant to Rule 15c2-12 (Check as appropriate of a Material Event pursuant to Rule 15c2-12 (Check as appropriate of a Material Event pursuant to Rule 15c2-12 (Check as appropriate of a Material Event pursuant to Rule 15c2-12 (Check as appropriate of a Material Event pursuant to Rule 15c2-12 (Check as appropriate of a Material Event pursuant to Rule 15c2-12 (Check as appropriate of a Material Event pursuant to Rule 15c2-12 (Check as appropriate of a Material Event pursuant to Rule 15c2-12 (Check as appropriate of a Material Event pursuant to Rule 15c2-12 (Check as appropriate of a Material Event pursuant to Rule 15c2-12 (Check as appropriate of a Material Event pursuant to Rule 15c2-12 (Check as appropriate of a Material Event pursuant to Rule 15c2-12 (Check as appropriate of a Material Event pursuant to Rule 15c2-12 (Check as appropriate of a Material Event pursuant to Rule 15c2-12 (Check as appropriate of a Material Event pursua	·
1. ☐ Principal and interest payment delinquencies	 Adverse tax opinions or events affecting the tax exempt status of the security
2. ☐ Non-payment related defaults	_
3. Unscheduled draws on debt service reserves reflecting financial difficulties	7. Modifications to the rights of security holders
	8. Bond calls
4. Unscheduled draws on credit enhancements reflecting financial	9. Defeasances
difficulties 5. □ Substitution of credit or liquidity providers, or their failure to perform	 Release, substitution, or sale of property securing repayment of the securities
	11. Rating changes
D. Notice of Failure to Provide Annual Financial Information as Requi	ired
E.	



PO Box 42001 San Juan, PR 00940-2001 Telephone (787) 722-2525

February 15, 2011

Municipal Securities Rulemaking Board (MSRB) Electronic Municipal Market Access System (EMMA)

Re: Puerto Rico Highway and Transportation Authority (Base CUSIP No. 745180, 745181, 745185 and 745190) Audited Financial Statements

In connection with the continuing disclosure obligations of the Puerto Rico Highway and Transportation Authority ("PRHTA") under Rule 15c2-12(b)(5)(i)(B) under the Securities Exchange Act of 1934, as amended, we hereby file with you on behalf of PRHTA one copy of its audited financial statements for the fiscal year ended June 30, 2010.

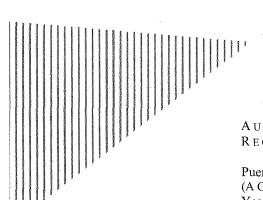
PRHTA's Annual Financial Information and Operating Data Report for the fiscal year ended June 30, 2010, will be filed promptly upon its preparation.

Sincerely,

Luz A. Colón

Manager

Oversight and Compliance Department



AUDITED FINANCIAL STATEMENTSAND REQUIRED SUPPLEMENTARY INFORMATION

Puerto Rico Highways and Transportation Authority (A Component Unit of the Commonwealth of Puerto Rico) Year Ended June 30, 2010 With Report of Independent Auditors

Audited Financial Statements and Required Supplementary Information

Year Ended June 30, 2010

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Ernst & Young LLP 1000 Scotiabank Plaza 273 Ponce de León Avenue San Juan, PR 00917-1951

Tel: 787 759 8212 Fax: 787 753 0808 www.ey.com

Report of Independent Auditors

Hon. Rubén Hernández Gregorat, Secretary Department of Transportation and Public Works Commonwealth of Puerto Rico

We have audited the accompanying statement of net assets of Puerto Rico Highways and Transportation Authority (the Authority), a component unit of the Commonwealth of Puerto Rico, as of June 30, 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Authority's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, the Authority changed its method of accounting for derivative instruments as a result of the adoption of the Governmental Accounting Standards Board (GASB) Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, effective July 1, 2009.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Puerto Rico Highways and Transportation Authority at June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

The financial statements of the Authority as of June 30, 2009 and for the year then ended were audited by other auditors. As described in Note 17, the Authority has recorded adjustments to restate certain beginning balances. We did not apply any other procedures to such adjustments and, therefore, are unaudited.

Management's Discussion and Analysis on pages 3 through 15 and the schedule of funding progress for retiree health plan on page 63 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ernst + Young LLP

February 3, 2011

Stamp No. 2576800 affixed to original of this report.

Management Discussion and Analysis

Year Ended June 30, 2010

The following discussion and analysis of the financial performance and activity of the Puerto Rico Highways and Transportation Authority (the Authority) provides an introduction and understanding of the basic financial statements of the Authority for the fiscal year ended June 30, 2010. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follows this section.

Financial Highlights for 2010

- Net assets totaled \$4,183.1 million at June 30, 2010.
- Net assets decreased by \$263.4 million in 2010, as compared to a decrease of approximately \$280.1 million in 2009.
- Net capital assets totaled \$11,170 million at June 30, 2010.
- Net capital assets decreased by 1.10% at June 30, 2010, when compared with the balance at June 30, 2009 of \$11,293.7 million.

Financial Highlights for 2009

- Net assets totaled \$4,446.5 million at June 30, 2009.
- Net assets decreased by \$280.1 million in 2009, as compared to a decrease of approximately \$268.1 million in 2008.
- Net capital assets totaled \$11,293.7 million at June 30, 2009.
- Net capital assets decreased by .24% at June 30, 2009, when compared with the balance at June 30, 2008 of \$11,321.5 million.

The Financial Statements

The basic financial statements provide information about the Authority's business-type activities. The financial statements are prepared in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB).

Management Discussion and Analysis (continued)

Overview of the Financial Statements for Business-Type Activities

The financial statements consist of the: (1) statement of net assets, (2) statement of revenues, expenses, and changes in net assets, (3) statement of cash flows, and (4) notes to the financial statements. The financial statements are prepared on the accrual basis of accounting, meaning that all expenses are recorded when incurred and all revenues are recognized when earned, in accordance with U.S. generally accepted accounting principles.

Statement of Net Assets

The statement of net assets reports all financial and capital resources of the Authority. The statement is presented in the format where assets equal liabilities plus net assets. Assets and liabilities are presented in order of liquidity and are classified as current (convertible into cash within one year) and noncurrent. The focus of the statement of net assets is to show a picture of the liquidity and financial health of the Authority as of the end of the year.

The Authority's net assets are reported in the following categories:

- Invested in Capital Assets, Net of Related Debt This component of net assets consists of all capital assets, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Although the Authority's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations and from gasoline and petroleum taxes allocated annually by the Commonwealth of Puerto Rico, since the capital assets themselves cannot be used to liquidate liabilities.
- Restricted for Debt Service This component of net assets consists of restricted assets for the principal and interest payments of the bonds payable. This restriction is imposed by the bondholders through debt covenants.
- Restricted for Construction This component of net assets consists of restricted assets for the specific purpose of paying for construction projects. This restriction is imposed by the grantors and contributors, as well as the bondholders through debt covenants.

Management Discussion and Analysis (continued)

• Unrestricted Net Assets - This component consists of net assets that do not meet the definition of net assets invested in capital assets, net of related debt, or restricted for debt service or for construction.

Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets includes operating revenues, which consist of toll, train fares, impact fee and other, and operating expenses, such as costs of operating the mass transportation system, administrative expenses, and depreciation on capital assets; and non-operating revenue and expenses, such as gasoline, diesel, oil and petroleum taxes, vehicle license fee, interest and investment income, and interest expense. The statement also includes capital grants. The focus of the statement of revenues, expenses, and changes in net assets is the change in net assets. This is similar to net income or loss and portrays the results of operations of the Authority for the entire operating period.

Statement of Cash Flows

The statement of cash flows discloses net cash provided by or used for operating activities, investing activities, noncapital financing activities, and from capital and related financing activities. This statement also portrays the health of the Authority in that current cash flows are sufficient to pay current liabilities.

Notes to Financial Statements

The notes to financial statements are an integral part of the basic financial statements and describe the significant accounting policies, related-party transactions, deposits and investments, capital assets, capital lease obligations, bonds payable, long-term liabilities, defined-benefit pension plans, derivative financial instruments, and the commitments and contingencies. The reader is encouraged to review the notes in conjunction with the management discussion and analysis and the financial statements.

Management Discussion and Analysis (continued)

Financial Analysis of the Authority's Business-Type Activities

Statements of Net Assets

The following table reflects a condensed summary of assets, liabilities, and net assets of the Authority as of June 30, 2010 and 2009:

	June 30	
	2010	2009
Assets		
Current assets	\$ 36,783,728	\$ 55,545,027
Restricted assets	838,033,788	828,078,353
Capital assets, net	11,169,923,203	11,293,726,078
Other assets	242,748,121	201,206,771
Total assets	\$ 12,287,488,840	\$12,378,556,229
	William Commission of the Comm	The state of the s
Liabilities		
Current liabilities	\$ 540,450,663	\$ 495,524,891
Long-term liabilities, net	7,563,894,428	7,436,478,493
Total liabilities	8,104,345,091	7,932,003,384
Net assets		
Invested in capital assets, net		
of related debt	3,582,002,074	3,832,909,029
Restricted for debt service	601,834,284	595,315,979
Restricted for construction	68,689,451	41,763,134
Unrestricted	(69,382,060)	(23,435,297)
Total net assets	4,183,143,749	4,446,552,845
Total liabilities and net assets	\$ 12,287,488,840	\$12,378,556,229

Management Discussion and Analysis (continued)

June 30, 2010

Current assets decreased by 33.8% to \$36.8 million. The change in current assets is primarily due to a decrease in accounts receivable of approximately \$16.9 million due to a resolution approved by the Puerto Rico Legislative Body to collect \$10.0 million from the Puerto Rico Department of Treasury.

Restricted assets increased by 1.2% to \$838.0 million. The increase consisted basically of a decrease in cash and cash equivalents, and cash and investments with trustee of approximately \$9.3 million and an increase in restricted receivables of \$19.3 million.

Capital assets decreased by 1.10% to \$11,169.9 million mainly due to a net decrease in construction in progress of approximately \$197.0 million and an increase in accumulated depreciation of approximately \$395.7 million. Capital assets are funded mainly with the proceeds of bonds and notes and with capital grants from the Federal Highways Administration (FHWA). Total capital grants from FHWA during fiscal years 2010 and 2009 used to fund capital assets amounted to approximately \$98 million and \$128.7 million, respectively.

Other assets increased by 20.6% to \$242.7 million due to an increase in deferred unrealized loss on derivative instruments and a decrease on revenue bonds issuance cost resulting from the current year amortization.

Current liabilities increased by 9.07% to \$540.5 million. The factors that caused this increase were mainly the net effect of an increase in subcontractor payable, current accrued legal claims, and current portion of bonds payable offset by a decrease in accounts payable.

Long-term liabilities, net, increased by 1.71% to \$7,563.9 million due principally to a net effect of a increase in accrued legal claims and non-revolving lines of credit and a decrease in bonds payable, net.

Net assets decreased by 5.92% to \$4,183.1 million principally due to a reduction in the invested in capital assets and unrestricted net assets.

Management Discussion and Analysis (continued)

June 30, 2009

Current assets decreased by 37% to \$55.5 million. The change in current assets is primarily due to a decrease in overnight deposits under repurchase agreements.

Restricted assets increased by 3% to \$828.1 million. The increased consist basically of an increased in the investment with trustee at June 30, 2009.

Capital assets decreased by .24% to \$11,293.7 million mainly due to a net decrease in construction in progress of approximately \$90.3 and a net increase in the accumulated depreciation of approximately \$394.5 million. Capital assets are funded mainly with the proceeds of bonds and notes and with capital grants from the Federal Highways Administration (FHWA) and Federal Transit Administration (PTA). Total capital grants from FHWA and FTA during fiscal year 2009 and used to fund capital assets amounted to approximately \$128.7 million.

Other assets increased by 52.6% to \$201.2 million due to the recognition of the fair values of derivatives instruments by \$77.1 million and a decrease in revenue bonds issuance cost resulting from the current year amortization.

Current liabilities decreased by 5.6% to \$495 million. The factors that caused this decrease were mainly the net effect of an increase in balances due to suppliers offset by a decrease in balances due to contractors and non-revolving lines of credit.

Long-term liabilities, net, increased by 4.9% to \$7,436.5 million due principally to a net effect of a decrease in bonds payable and an increase in lines of credit and legal reserve.

Net assets decreased by 5.9% to \$4,446.5 million principally due to a reduction in the invested in capital assets, net of related debt and unrestricted net assets.

Management Discussion and Analysis (continued)

Statements of Revenues, Expenses and Changes in Net Assets

The following table reflects a condensed summary of the revenues, expenses, and changes in net assets for the years ended on June 30, 2010 and 2009.

	Jun	June 30	
	2010	2009	
Operating revenues	\$ 227,953,750	\$ 229,161,530	
Operating expenses	261,586,692	319,279,141	
Depreciation and amortization	411,698,825	403,769,914	
Operating loss	(445,331,767)	(493,887,525)	
Non-operating revenues	314,177,438	325,902,272	
Non-operating expenses	(299,940,111)	(282,777,172)	
Loss before capital grants	(431,094,440)	(450,762,425)	
Capital grants	167,685,344	176,436,381	
Change in net assets	(263,409,096)	(274,326,044)	
Net assets at beginning of year	4,446,552,845	4,720,878,889	
Net assets at end of year	\$ 4,183,143,749	\$ 4,446,552,845	

Year Ended June 30, 2010

Operating revenues, which consisted of toll fares, train fares and other revenues decreased by .53% to \$228 million, mainly due to an increase in toll fares of \$1.6 million and a decrease in impact fee and other income of \$2.8 million. This decrease is due to a reduction in the construction industry during fiscal year 2010 as a result of general economic conditions in Puerto Rico.

Operating expenses decreased by 18.07% to \$261 million mainly due to decreases in repairs and maintenance of roads and bridges and in operating and maintenance costs for train, and integrated transportation system costs.

Management Discussion and Analysis (continued)

Non-operating revenues, which consist principally of gasoline, oil, diesel and petroleum tax revenues, vehicle license fees allocated by the Commonwealth of Puerto Rico to the Authority, it reflected a decrease of 3.6%. The decrease is mainly due to the fact that during year 2009, the Authority collected additional vehicle license fee of approximately \$4 million as part of a reconciliation procedure with the Puerto Rico Treasury Department. Non-operating expenses, which consist principally of interest expense on bonds and line of credit, net of investment income, transfers, and construction work performed for other government agencies increased by 6.07% to \$299 million. This increase is a net effect of an increase in the interest on line of credit by \$6.7 million and a decrease in investment income by \$13.5 million.

Year Ended June 30, 2009

Operating revenues decreased by 4.34% to \$229.1 million, mainly due to a decrease in toll fares of \$6.2 million and a decrease in impact fee of \$5.7 million. This decrease is due to a reduction in patronage during fiscal year 2009 as a result of general economic conditions.

Operating expenses increased by 6% to \$319.2 million mainly due to the net effect of an increase in the legal reserve of \$30 million and decrease in salaries and related benefits as a result of a change in the capitalization policy for the year ended June 30, 2008.

Non-operating revenues, maintained in line with prior year, it reflected an increase of .01%. Non-operating expenses, which consist principally of interest expense on bonds and line of credit, transfers and construction work performed for other government agencies, net of investment income, decreased by 7% to \$282.8 million. This decrease is due to a decrease in transfers and construction work performed for other government agencies.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the Authority had invested approximately \$11,170 million in capital assets (net of related depreciation) including roads, bridges, transportation equipment, buildings, land and equipment and construction in progress. At June 30, 2009, the Authority had invested approximately \$11,293.7 million in capital assets.

Management Discussion and Analysis (continued)

At the end of fiscal year 2005, the Authority started operating the mass rail transportation system for the San Juan Metropolitan area known as "Tren Urbano". The Authority incurred approximately \$2.42 billion in costs, \$685.7 million paid with federal funds, for this project which consists of approximately 17 km. of track running from Bayamón to Santurce. Maintenance services are partially funded with capital grants from the Federal Transit Administration (FTA). Total capital grants received from FTA during fiscal year 2010 and used for maintenance services amounted to \$12 million.

The Authority extended the original five-year contract for the operation and maintenance of the Tren Urbano with a private company, for five (5) additional years ending on June 5, 2015. Under this agreement, the private company is responsible for operating and maintaining Tren Urbano and is entitled to receive for such services an annual base compensation, subject to inflation adjustment for changes in cost of labor and materials. The base compensation does not include the cost of insurance and electricity which is paid by the Authority.

Debt Administration

As of June 30, 2010, the principal amount of the Highways and Senior Transportation, and Grant Anticipation Revenues Bonds outstanding, net of unamortized discounts and net losses on advance refunding, which approximated \$6,517.7 million, were insured and rated Baa3 by Moody's Investors Service (Moody's), respectively, and BBB by Standard & Poor's (S&P) for the Senior Bonds and BBB+ for the other bonds. The remaining uninsured bonds are rated Baa1 by Moody's and A by S&P, except for the Subordinated Transportation Revenue Bonds, which are rated Aaa and A-, respectively.

On May 1, 2008, the Authority issued \$400 million of Subordinated Transportation Revenue Bonds (Series 2008A). The Proceeds from the Series 2008A bonds were used to repay the Subordinated Transportation Revenue Bonds from Series 2006A, 2007 A and 2007B.

The Authority's bond sales must be approved by the Secretary of Transportation and Public Works, who exercises the powers of the Governing Board of the Authority in coordination with the Government Development Bank for Puerto Rico and the Fiscal Agent of the Commonwealth of Puerto Rico. The Authority must comply with certain rules and regulations of the United States Treasury Department and the United States Securities and Exchange Commission relating to such sales.

Management Discussion and Analysis (continued)

In connection with the issuance of the CPI and LIBOR Bonds, the Authority has entered into interest-rate swap agreements. In general, the swap agreements provides that, subject to the terms thereof, the Authority will pay to the swap provider a fixed rate and the swap provider will pay to the Authority a floating rate based on the CPI or LIBOR Rate, based on a notional amount equal to the principal amount of the CPI and LIBOR Bonds outstanding. The purpose of the swap agreement is generally to convert the Authority's floating rate obligations with respect to the CPI and LIBOR Bonds to fixed rate obligations.

ECONOMIC FACTORS AND 2011 BUDGET

The economy of Puerto Rico must be analyzed as a region of the U.S. economy, since it is part of the U.S. monetary and banking system, and it is located within its custom and territorial boundaries. The main driver of the Puerto Rico economy is a huge external sector closely tied to the flow of merchandise, tourists, and capital between Puerto Rico and the U.S. Thus, historically, the real growth rate of the Puerto Rican economy has followed that of the U.S. economy, except in periods of energy crisis, when the rise in oil prices exerted a more profound negative effect on the level of economic activity in Puerto Rico than in the United States. According to the National Bureau of Economic Research (NBER), the U.S. economy entered into a recessionary period in December 2007, which turned into a deep recession in the third quarter of 2008, concurrent with a U.S. and global financial and housing market crises. The current recession has been the longest and deepest since the Great Depression of the thirties. In fiscal year 2009, real Gross National Product (GNP) dropped by 2.96% in the United States, concurrently with a loss of 2.77 million payroll workers and a rise in the unemployment rate to an average of 7.61%. Although the NBER declared that the Great Recession was officially over as of June 2009, the U.S. economy slowly improved, posting a modest 0.91 % increase in real GNP in fiscal year 2010, while the employment situation worsened. Payroll employment experienced a loss of 3.96 million workers in fiscal year 2010, while the unemployment rate climbed to a yearly average of 9.77%.

Management Discussion and Analysis (continued)

In fiscal year 2010, for the second year in a row, Puerto Rico real GNP declined by more than 3.0%, a negative record since the Great Depression, as anticipated by the Interamerican University Econometric Model and later confirmed by the Puerto Rico Planning Board. This steep decline in Puerto Rico real GNP was caused by the interaction of several factors, mainly the intensity of the U.S. and global economic crises, combined with the negative effects of the fiscal crisis of Commonwealth of Puerto Rico and a substantial overbuilding in the housing and business sectors. However, in spite of the significant drop in Puerto Rico real GNP during fiscal year 2010, coupled with a 4.7% increase in average gasoline prices, as compared to a substantial decline of 20.0% in gasoline prices in fiscal year 2009, revenues of the Highway and Transportation Authority have shown a great resilience to avoid a significant contraction despite the negative macroeconomic environment. Thus, we must emphasize that in spite of the adverse macroeconomic environment prevailing in fiscal year 2010, the Authority was able to achieve a level of recurrent revenues, excluding train fares and financial revenues, close to the level attained in fiscal year 2009.

The total of the main five categories of recurrent revenues amounted to \$524.8 million, a drop of only \$7.6 million or 1.4% over the amount in fiscal year 2009 (\$532.4 million), which can be mostly attributed to negative structural factors affecting diesel tax revenues of \$3.2 million, and a \$3.9 million decline in the transfer of vehicle license fees from the Treasury Department to the Authority, which does not necessarily reflect a drop in the collection of those fees. However, the analysis of the Authority's revenues in fiscal year 2010 reveals two important good news: first, revenues of the gasoline tax only declined by \$.65 million or less than one half percent (0.37%); and second, toll revenues experienced its first increase since 2007, reaching a total of \$209.12 million, and surpassing by \$2.64 million or 1.28% the level of \$206.48 million attained in fiscal year 2009. The upward turn in retail sales of automobile and light trucks in fiscal year 2010, which increased to 83,485 vehicles, exceeding by 6.1% the level of fiscal year 2009 (78,686 vehicles), was a factor contributing to improve the increase in gasoline tax and toll revenues.

Management Discussion and Analysis (continued)

The macroeconomic environment in the United States and Puerto Rico has been improving in the current fiscal year 2011. IHS Global Insight projects that real GNP in the United States will advance at a rate of 2.7% in fiscal year 2011, almost two percentage points above fiscal year 2010. The economy of Puerto Rico is expected to return to a positive but modest growth rate in fiscal year 2011. The Puerto Rico fiscal reform, recently approved, will inject approximately \$300 million in tax cuts for individuals and businesses, mostly in the second half of fiscal year 2011. Puerto Rico will also benefit from recent measures of federal stimulus, such as the cut of 2 percentage points in social security taxes paid by employees, which will increase personal income about \$250 million in the second half of 2011, and the extension of unemployment benefits.

We must also stress the behavior of certain indications of economic recovery that exert a positive impact on Authority's revenues. Sales of automobiles and light trucks continue to accelerate. In the first five months of current fiscal year 2011 (July-November 2010), sales of automobile and light trucks amounted to 37,041 vehicles, posting an increase of 4,833 vehicles, equivalent to 15.01%, over the same period of fiscal year 2010. Gasoline consumption reached 459.2 million gallons in the first five months of current fiscal year 2011, showing an increase of almost 2% (1.89%), after three years of decline. The performance of toll revenues is also encouraging, since Authority's toll revenues increased by 2.5% in the first five month of fiscal year 2011, surpassing the 1.34% rise recorded in fiscal year 2010 over fiscal year 2009. In view of these recent developments, the latest projection of \$531.0 million for Authority's five main categories of revenues, excluding train fares and investment income, seems achievable.

The Authority faces a number of business challenges that have been exacerbated by major changes in the general economic scenario of the Commonwealth, this resulted in both reduction of revenue tendencies and increased investment and operational costs. Furthermore, and partly because of said changes, the Authority suffered a serious budgetary crunch. Nevertheless, the Authority is undertaking a comprehensive financial turnaround program in order to recover and even widen its investment capacity by adopting different revenue increasing measures and expense and debt reduction initiatives.

Management Discussion and Analysis (continued)

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our bondholders, patrons, and other interest parties with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have question or need additional financial information, contact the Puerto Rico Highways and Transportation Authority, Finance Area, P.O. Box 42007, San Juan, Puerto Rico 00940-2007.

Statement of Net Assets

June 30, 2010

Assets	
Current assets:	
Cash and cash equivalents	\$ 28,830,819
Accounts receivable, net of allowance for doubtful	
accounts of \$48,363,052	5,870,710
Prepaid expenses and other assets	2,082,199
Total current assets	36,783,728
Restricted assets:	
Cash and cash equivalents	38,960,144
Cash and cash equivalents and investments with trustee	768,224,919
Receivables:	
Puerto Rico Treasury Department	1,226,329
US Federal government	27,814,504
Accrued interest and other	1,807,892
Total restricted assets	838,033,788
Capital assets, net	11,169,923,203
Deferred unrealized loss on derivative instruments	126,027,033
Revenue bonds issuance cost, net of accumulated	
amortization of \$48,324,381	116,583,144
Advances to government entity, net of allowance	
for doubtful accounts of \$18,790,466	137,944
Total assets	\$ 12,287,488,840
	(Continued)

Statement of Net Assets (continued)

Liabilities and net assets		
Current liabilities:		
Checks issued over bank balance	\$	8,372,917
Accounts payable		43,234,692
Accrued and other liabilities		60,369,150
Total current liabilities		111,976,759
Current liabilities payable from restricted assets:		
Accounts and subcontractors payable		151,584,006
Accrued interest payable		156,794,898
Current portion of bonds payable		120,095,000
Total current liabilities payable from restricted assets		428,473,904
Noncurrent liabilities:		
Accrued legal claims		96,897,874
Accrued vacations and sick leave		14,012,243
Fair value of derivative instruments		126,027,033
Nonrevolving lines of credit		929,313,000
Bonds payable, net		6,397,644,278
Total noncurrent liabilities		7,563,894,428
Total liabilities		8,104,345,091
Net assets:		
Invested in capital assets, net of related debt		3,582,002,074
Restricted for debt service		601,834,284
Restricted for construction		68,689,451
Unrestricted		(69,382,060)
Total net assets		4,183,143,749
Total liabilities and net assets	***************************************	2,287,488,840

 $See\ accompanying\ notes.$

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2010

Operating revenues:		
Toll and train fares	\$	219,365,038
Impact fee and other		8,588,712
Total operating revenues		227,953,750
Operating expenses:		
Salaries and related benefits		21,271,959
Toll highways administration and maintenance		29,251,837
Train operating and maintenance costs		58,552,740
Integrated transportation system		10,492,809
Repairs and maintenance of roads and bridges		43,516,782
Utilities		12,994,910
Other		85,505,655
Total operating expenses	,	261,586,692
Operating loss before depreciation and amortization		(33,632,942)
Depreciation and amortization		411,698,825
Operating loss		(445,331,767)
Non-operating revenues (expenses):		****
Gasoline, diesel, oil and petroleum tax revenues		281,807,043
Vehicle license fee		32,370,395
Interest on bonds and lines of credit		(325,008,246)
Interest and investment income		25,068,135
Total non-operating revenues, net		14,237,327
Loss before capital grants		(431,094,440)
		167 605 244
Capital grants	,	167,685,344
Change in net assets		(263,409,096)
Net assets at beginning of year, as restated		4,446,552,845
Net assets at beginning of year, as restated Net assets at end of year	,	4,183,143,749
not assets at end of year	<u> </u>	7,103,173,773

See accompanying notes.

Statement of Cash Flows

Year Ended June 30, 2010

Operating activities	
Receipts from toll and train fares	\$ 219,365,038
Receipts from other sources	25,479,152
Payments to employees and related benefits	(23,520,510)
Payments to suppliers for goods and services	 (219,007,756)
Net cash flows provided by operating activities	2,315,924
Noncapital financing activities	
Net change in checks issued over bank balance	818,335
Net cash flows provided by noncapital financing activities	818,335
Capital and related financing activities	
Receipts from US Federal government grants	150,070,598
Acquisition and construction of capital assets,	
net of capitalized interest	(215,460,719)
Receipts from gasoline, petroleum and vehicle license fees	313,178,420
Net advances from line of credit	578,000,000
Payments of bonds	(504,090,000)
Interest paid	 (349,270,896)
Net cash flows used in capital and related financing activities	(27,572,597)
Investing activities	
Payments for cash and investments with Trustee	(458,246,498)
Deposits to cash and investments with Trustee	454,419,342
Investment and interest income received	 23,372,995
Net cash flows provided by investing activities	 19,545,839
Net decrease in cash and cash equivalents	(4,892,499)
Cash and cash equivalents at beginning of year	 72,683,462
Cash and cash equivalents at end of year	\$ 67,790,963
	 (Continued)

Statement of Cash Flows (continued)

Year Ended June 30, 2010

Reconciliation to cash and cash equivalents	
presented in the statements of net assets	
Cash and cash equivalents	\$ 28,830,819
Cash and cash equivalents - restricted	 38,960,144
Total	\$ 67,790,963
Reconciliation of operating loss to net cash flows	
provided by operating activities	
Operating loss	\$ (445,331,767)
Adjustments to reconcile operating loss to net cash	
flows provided by operating activities:	
Depreciation and amortization	411,698,825
Bad debt expense	72,438
Loss on disposition of assets	171,709
Decrease in amout due from government entities	
through charges to repairs of roads and bridges	(137,944)
Net change in operating assets and liabilities:	
Accounts receivable	16,890,440
Prepaid expenses and other assets	(89,259)
Accounts payable	(39,682,202)
Accrued liabilities	26,478,361
Accrued legal claims	34,493,874
Accrued vacations and sick leave	 (2,248,551)
Net cash flows provided by operating activities	\$ 2,315,924
Supplemental cash flows information	
Noncash transactions:	
Capital appreciation bonds	 5,461,869
Change in fair value of derivative instruments	\$ 48,866,895

Notes to Financial Statements

June 30, 2010

1. Organization

Puerto Rico Highways and Transportation Authority ("the Authority") is a public corporation and instrumentality of the Commonwealth of Puerto Rico, created by Act No. 74 of June 23, 1965, as amended, to provide roads and other facilities for the movement of persons, vehicles and vessels, and for the planning, promotion and feasibility of mass transportation systems. The Authority is a component unit of the Commonwealth of Puerto Rico and accordingly is included in the general-purpose financial statements of the Commonwealth of Puerto Rico. The powers normally exercised by a Board of Directors are vested with the Secretary of the Department of Transportation and Public Works (DTPW). The Authority is exempt from the payment of any taxes on its revenues and properties.

2. Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

The accounting policies of the Authority conform to generally accepted accounting principles in the United States of America, as promulgated in pronouncements of the Governmental Accounting Standards Board (GASB) and the pronouncements of the Financial Accounting Standards Board (FASB) issued before December 1, 1989, which are not in conflict with GASB pronouncements. As permitted by GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, the Authority has elected to not apply FASB pronouncements issued after November 30, 1989.

The Authority's operations are accounted for as a proprietary fund (enterprise fund) using the flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the Authority's operations are included on the statement of net assets. Revenue is recognized in the period in which it is earned and expenses are recognized in the period in which incurred.

The Authority accounts for its operations and financings in a manner similar to private business enterprises; the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Cash and Cash Equivalents

The Authority considers as cash and cash equivalents all highly liquid investments with original maturities at the date of purchase of three months or less.

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Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Investments

The Authority follows the provisions of GASB No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. This statement requires investments to be reported on the statement of net assets at fair value and investment income, including changes in the fair value of investments, to be reported as non-operating income in the statement of revenues, expenses and changes in net assets. Fair values have been determined using quoted market values at June 30, 2010.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing accounts receivable that may become uncollectible based on evaluations of collectibility of accounts receivable and prior credit loss experience. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the existing accounts receivable and related allowance may change in the future.

Capital Assets

Cost basis – Capital assets are recorded at historical cost or estimated historical cost. The cost of property and equipment includes costs for infrastructure assets (rights-of-way and bridge substructures and highways and bridges), toll facilities, equipment and other related costs (including software), buildings and furniture and equipment. Highways and bridge substructures include road subbase, grading, land clearing, embankments, and other related costs. Costs for infrastructure assets include construction costs, design and engineering fees and administrative and general expenses paid from construction monies.

Capitalization policy — Infrastructure capital assets (road, bridges, highways, transportation equipment, etc.) are defined by the Authority as assets with an initial, individual cost of more than \$500,000 and an estimated useful life of more than one year. Other capital assets, such as equipment, vehicles, etc. are defined by the Authority as assets with an initial individual cost of more than \$100 and an estimated life of more than three years.

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Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

Costs to acquire additional capital assets, which replace existing assets or otherwise prolong their useful lives, are generally capitalized.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Interest cost is capitalized as part of the historical cost of acquiring certain assets. To qualify for interest capitalization, assets must require a period of time before they are ready for their intended purpose. Interest earned on proceeds of tax-exempt borrowings arrangements restricted for the acquisition of qualifying assets is offset against interest cost to determine the net amount to be capitalized. Interest cost is not capitalized on costs paid with the proceeds of grants or donations restricted solely for construction.

Depreciation of capital assets – Depreciation is provided using the straight-line method over an estimated useful live of 40 years for roads and highways, 50 years for bridges and transportation system and 10 years for equipment, vehicles and other.

Impairment of capital assets – The Authority has implemented GASB No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. The objective of GASB 42 is to establish accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries.

Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage among others.

The Authority evaluated its capital assets as required by GASB 42 and no impairment was identified during the year ended June 30, 2010.

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Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Claims and Judgments

The estimated amount of the liability for claims and judgments is recorded on the accompanying statement of net assets based on the Authority's evaluation of the probability of an unfavorable outcome in the litigation of such claims and judgments. The Authority consults with legal counsel upon determining whether an unfavorable outcome is expected. Because of uncertainties inherent in the estimation process, management's estimate of the liability for claims and judgments may change in the future.

Vacation and Sick Leave

Employees earn annual vacation leave at the rate of 30 days per year up to a maximum permissible accumulation of 60 days for regular employees. Employees accumulate sick leave at the rate of 18 days per year. Sick leave is only payable if the regular employee resigns and has more than 10 years of employment, or retires and takes a pension. Maximum permissible accumulation for sick leave is 90 days for all employees, and the excess is paid within the next year. The Authority records as a liability and as an expense the vested accumulated vacation and sick leave as benefits accrue to employees.

The cost of vacation and sick leave expected to be paid in the next twelve months is classified as current and accrued liabilities while amounts expected to be paid after twelve months are classified as noncurrent liabilities.

Unamortized Gains/Losses on Advance Refunding

Gains/losses resulting from current or advance refunding of debt are deferred and amortized over the shorter of the life of the new debt and the remaining life of old debt. The amount deferred is reported as a reduction of the debt and the amount amortized is reported as a component of interest expense.

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Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Bond Premiums (Discounts) and Bond Issuance Costs

Bond premiums (discounts) are presented in the accompanying statement of net assets as an increase/reduction of the face amount of bonds payable. Bond issuance costs are presented as a deferred asset in the accompanying statement of net assets. The premiums (discounts) and issuance costs are amortized over the life of the bonds using the effective interest method. Amortization related to bond premiums (discounts) was approximately \$22.3 million for the year ended June 30, 2010, and is included as a component of interest expense in the accompanying statement of revenues, expenses and changes in net assets.

Depreciation and amortization expense in the accompanying statement of revenues, expenses and changes in net assets includes amortization of bond issuance costs for the year ended June 30, 2010 of approximately \$7.5 million.

Net Assets

Net assets are classified in the following four components in the accompanying statement of net assets:

Invested in Capital Assets, Net of Related Debt – This component of net assets consist of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of this component of net assets. Rather, that portion of the debt is included in the same net asset component as the unspent proceeds.

Restricted for Debt Service – Net assets restricted for debt service consists of restricted assets for payment of principal and interest related to bonds payable. This restriction is imposed by the bondholders through debt covenants.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Net Assets (continued)

Restricted for Construction – Net assets restricted for construction consists of restricted assets for the specific purpose of financing the construction projects. This restriction is imposed by the grantors and contributors, as well as the bondholders through debt covenants.

Unrestricted – Unrestricted net assets consist of net assets that do not meet the definition of "restricted for debt service", "restricted for construction" or "invested in capital assets, net of related debt".

Revenue Recognition

The Authority distinguishes operating revenues and expenses from non-operating items. Revenues associated with toll and train fares are recorded as operating revenues when cash is received, except for prepaid amount which are recorded when earned. Expenses related to the administration and maintenance of toll highways and transportation system, repair and maintenance of roads and bridges, and administrative expenses are recorded as operating expenses. All other revenues and expenses are considered non-operating.

Non-operating revenues consist principally of gasoline, diesel, oil and petroleum taxes and vehicle license fees which are allocated to the Authority by the Commonwealth of Puerto Rico as approved by law to finance the acquisition and construction of capital assets and for the payment of the related debt. These taxes and fees are recorded as non-operating revenues when the Puerto Rico Treasury Department collects such taxes and informs the Authority of such collection.

Contributions

Contributions are funds assigned by the federal and local governments, agencies and/or private companies such as Federal Highway Administration (FHWA), Federal Transit Administration (FTA), and Federal Emergency Management Agency (FEMA) to the Authority for the exclusive purpose of the construction of specific projects or infrastructure repairs and maintenance. Capital grants of the Authority are reported as non-operating revenues rather than contributed capital as required by GASB Statement No 33, Accounting and Financial Reporting for Nonexchange Transactions.

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Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Financial Instruments

The Authority uses derivative financial instruments to manage the economic impact of fluctuations in interest rates. Effective July 1, 2009, the Authority implemented the provisions of GASB No. 53, Accounting and Financial Reporting for Derivative Instruments, in accounting for its derivative financial instruments, which requires derivative instruments to be reported at fair value in the statement of net assets. As a result of the implementation, the Authority established a derivative liability and corresponding deferred unrealized loss on derivative instruments of approximately \$126 million.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

The implementation of GASB No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, involved the use of assumptions and estimates in the determination of the cost of general infrastructure assets, such as roads, highways, bridges and land. The cost of such assets was estimated based on current costs for similar assets deflated using the general price index through the estimated average age of the assets

Risk Financing

The Authority carries commercial insurance to cover casualty, theft, claims and other losses. The current insurance policies have not been cancelled or terminated. The Authority has not settled any claims in excess of its insurance coverage the year ended June 30, 2010. The Authority also pays premiums for workers compensation insurance to another component unit of the Commonwealth of Puerto Rico.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Newly Issued Accounting Pronouncements

Statement No. 62

In December 2010, the GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

- 1. Financial Accounting Standards Board (FASB) Statements and Interpretations
- 2. Accounting Principles Board Opinions
- 3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

This Statement also supersedes Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented. Management has not completed its determination of the impact on the financial statements once the provisions of this Statement are implemented.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Newly Issued Accounting Pronouncements (continued)

Statement No. 60

In November 2010, GASB issued Statement No. 60 Accounting and Financial Reporting for Service Concession Arrangements. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. This Statement requires disclosures about an SCA including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented. Management has not completed its determination of the impact on the financial statements once the provisions of this Statement are implemented.

Statement No. 59

In June 2010, GASB issued Statement No. 59, Financial Instruments Omnibus. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2010. Earlier application is encouraged. Management has not completed its determination of the impact on the financial statements once the provisions of this Statement are implemented.

Notes to Financial Statements (continued)

3. Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2010 consisted of:

Cash on hand and in banks		\$ 10,765,280
Repurchase agreements	_	 18,065,539
Total	_	\$ 28,830,819

Cash and cash equivalents includes overnight deposits acquired under repurchase agreements with Economic Development Bank (EDB) and Government Development Bank (GDB) in the amounts of \$18 million at June 30, 2010. These deposits are exempt from collateral and therefore are subject to custodian credit risk.

4. Accounts Receivable, Net

Accounts receivable at June 30, 2010 consisted of:

Government agencies and other	\$ 44,824,017
Rent receivables	3,925,797
Repairs to highways recoverable from users	1,363,084
Other	4,120,864
Total	 54,233,762
Less allowance for doubtful accounts	 (48,363,052)
	\$ 5,870,710

Notes to Financial Statements (continued)

5. Restricted Cash, Cash Equivalents, and Investments with Trustee

Restricted cash and investments with Trustee at June 30, 2010 consisted of:

Cash and cash equivalents		
Cash on hand and in banks	\$	6,138,941
Cash held by:		
Puerto Rico Treasury Department		23,302,109
Government Development Bank		5,229,624
Puerto Rico State Infrastructure Bank Deposit		4,289,470
Total	\$	38,960,144
Cash, cash equivalents, and investments with trustee		
Cash and cash equivalents	\$	222,437,328
Guaranteed investment contracts	Ψ	384,559,143
US Government securities		84,162,731
Mortgage backed securities		77,065,717
Total	<u>-</u>	768,224,919

Notes to Financial Statements (continued)

5. Restricted Cash, Cash Equivalents, and Investments with Trustee (continued)

At June 30, 2010, the above amounts were restricted to comply with long-term principal and interest debt service requirements or for construction of transportation facilities. These restricted assets are held by the Fiscal Agent under the Bonds Resolutions in the following funds and accounts:

1968 Reserve Account – Reserve for payment of principal of and interest on Highway Revenue Bonds in the event moneys in Bond Service Account or Redemption Account under Resolution 68-18 are insufficient for such purpose.

1968 Bond Service Account and Redemption Account (Sinking Fund under Resolution 68-18) – Current year requirements for principal and interest on Highway Revenue Bonds.

1998 Senior Reserve Account – Reserve for payment of principal and interest on Senior Transportation Revenue Bonds in the event moneys in Senior Bond Service Account Senior Bond Redemption Account under Resolution 98-06 are insufficient for such purpose.

1998 Senior Bond Service Account and Senior Bond Redemption Account (Senior Bond Sinking Fund under Resolution 98-06) — Current year requirements for principal and interest on Senior Transportation Revenue Bonds.

1998 Subordinated Reserve Fund — Reserve for payment of principal of and interest on Subordinated Transportation Revenue Bonds in the event moneys in Subordinated Bond Service Account or Subordinated Bond Redemption Account under Resolution 98-06 are insufficient for such purpose.

1998 Subordinated Bond Service Account and Subordinated Bond Redemption Account (Subordinated Bond Sinking Fund under Resolution 98-06) — Current year requirements for principal of and interest on Subordinated Transportation Revenue Bonds.

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Notes to Financial Statements (continued)

5. Restricted Cash, Cash Equivalents, and Investments with Trustee (continued)

1998 Construction Fund – Special fund created by the Resolution 98-06. The proceeds of any Transportation Revenue Bonds issued for the purpose of paying the cost of acquiring or constructing transportation facilities, together with the money received from any other source for such purpose, except proceeds which are (i) applied to the repayment of advances, (ii) deposited in the 1998 Senior Bond Reserve Account or 1998 Subordinated Bond Reserve Fund, (iii) deposited in the 1998 Senior or Subordinated Bond Service Account as capitalized interest or (iv) used for the payment of financing expenses, shall be deposited in the 1998 Construction Fund and held by the Fiscal Agent in trust.

2004 Grant Anticipation Bond Reserve Account – Reserve for payment of principal and interest on 2004 Grant Anticipation Bonds in the event insufficient funds for such purpose are available in the Bond Payment Fund.

At June 30, 2010, amounts held by Fiscal Agent in the above accounts amounts to (in thousands):

1968 Reserve Account	\$	140,766
1968 Sinking Fund		95,100
1998 Senior Reserve Account		282,500
1998 Senior Sinking Fund		149,940
1998 Subordinated Reserved Fund		42,153
1998 Subordinated Sinking Fund		20,941
1998 Construction Fund		24,333
2004 Grant Anticipation Reserve Account		12,491
Total	\$ -	768,224

Deposits in Puerto Rico Infrastructure Bank (SIB) represent funds held by Société Générale related to the establishment of a state infrastructure bank account, which is dedicated solely to provide loans or other form of financial assistance consistent with the National Highway System Designation Act of 1995. The SIB is funded by a matching share agreement whereby on or before the date the Authority receives a Federal payment, the Authority must deposit an amount equal to at least 25% of such payment. These time deposits are held in the Authority's name.

Notes to Financial Statements (continued)

6. Deposits and Investments

The following paragraphs disclose essential risk information about deposits and investments as required by Governmental Accounting Standard Board Statement No. 40, *Deposits and Investments Risk Disclosures*:

The Authority is restricted by law to deposit funds only in institutions approved by the Puerto Rico Treasury Department, and such deposits are required to be kept in separate accounts in the name of the Authority. Resolutions 68-18, 98-06 and 04-18 (the Bond Resolutions) require that moneys in the debt service funds be held by Bank of New York (the Fiscal Agent) in trust and applied as provided in the Bond Resolutions.

Pursuant to the Investment Guidelines for the Commonwealth adopted by Government Development Bank for Puerto Rico ("GDB"), the Authority may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, repurchase agreements, banker's acceptances, or in pools of obligations of the municipalities of Puerto Rico, among others. Monies in the sinking funds can only be invested in direct obligations of the United States government, or obligations unconditionally guaranteed by the United States government, and/or interest-bearing time deposits, or other similar arrangements, as provided by the Bond Resolutions.

Custodian Credit Risk - Deposits

For deposits; custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned to it. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth of Puerto Rico. The bank balance of the Authority's deposit at June 30, 2010 amounts to \$38.2 million.

As of June 30, 2010, the Authority's custodial credit risk was approximately \$11.8 million, which is the bank balance of cash deposited, including repurchase agreements, at the Government Development Bank and Economic Development Bank for Puerto Rico and the Department of Treasury of the Commonwealth of Puerto Rico. These deposits are exempt from the collateral requirement established by the Commonwealth.

Notes to Financial Statements (continued)

6. Deposits and Investments (continued)

Custodian Credit Risk - Investments

For an investment, custodial credit risk is the risk that in event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority invests in prime investments with a minimum quality rating of Ai Moody's or Standard and Poor's. In addition, investment in bond sinking funds are limited to investments in direct obligations of the United States government, or obligations unconditionally guaranteed by the United States government, and/or interest-bearing time deposits, or other similar arrangements, as provided by the Bond Resolutions.

The Authority holds guaranteed investment contracts with a fair value of \$384 million at June 30, 2010. These investments are guaranteed by U.S. government securities.

Providers of guaranteed investment contracts as of June 30, 2010 are as follows:

Société Générale	\$ 79,845,253
Bank of New York	64,123,178
Bank of America	46,883,778
FSA Capital Management Service	44,674,424
Citigroup Financial Product, Inc.	40,121,547
First Union National Bank	38,479,000
Wachovia Bank NA	26,512,201
Westdeutsche Landesbank	 43,919,762
Total	\$ 384,559,143

Notes to Financial Statements (continued)

6. Deposits and Investments (continued)

Interest-Rate Risk

Interest-rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes to market interest rate. Maturities of restricted cash and investments with Trustee at June 30, 2010, are as follows:

	Maturing From/To	 Fair Market Value
Cash and cash equivalents	N/A	\$ 222,437,328
Guaranteed investments contracts	07/01/10-07/31/38	384,559,143
US Government and agencies securities	07/01/10-01/21/20	84,162,731
Mortgage backed securities	07/01/10-01/30/23	77,065,717
Total		\$ 768,224,919

All investments have been classified as Aaa by Standard & Poors.

7. Advances to Governmental Entity

Advances to governmental entity at June 30, 2010, consist principally of advances made by the Authority to the Department of Transportation and Public Works of the Commonwealth of Puerto Rico ("DTPW") to carry-out its participation in the construction improvement program of the Authority. These advances are reduced by the Authority through charges made by DTPW for repairs and maintenance of roads and bridges.

Notes to Financial Statements (continued)

8. Capital Assets, Net

The following schedule summarizes the capital assets, net, held by the Authority as of June 30, 2010:

	Balance at June 30, 2009	Increases	Decreases	Balance at June 30, 2010
Asset not being depreciated				
Land	\$ 1,827,585,424 \$	5,164,172 \$	enon.	\$ 1,832,749,596
Construction in progress	827,758,022	199,826,979	(304,515,233)	723,069,768
Total .	2,655,343,446	204,991,151	(304,515,233)	2,555,819,364
Assets being depreciated				
Transportation system	2,419,375,826		****	2,419,375,826
Roads	11,240,462,465	310,983,056	_	11,551,445,521
Bridges	3,272,297,180	61,734,042		3,334,031,222
Equipment, vehicles and other	97,076,528	2,113,437	(3,315,459)	95,874,506
Total	17,029,211,999	374,830,535	(3,315,459)	17,400,727,075
Less accumulated depreciation	(8,390,829,367)	(398,372,109)	2,578,240	(8,786,623,236)
Total assets being depreciated	8,638,382,632	(23,541,574)	(737,219)	8,614,103,839
Total capital assets	\$ 11,293,726,078 \$	181,449,577 \$	(305,252,452)	\$ 11,169,923,203

The Authority capitalized interest of approximately \$28.3 million during the year ended June 30, 2010.

Notes to Financial Statements (continued)

9. Bonds Payable

The bond resolutions authorize the issuance of revenue bonds to obtain funds to pay the construction and related costs of transportation facilities. Bonds outstanding under the bond resolutions at June 30, 2010, consisted of:

RESOLUTION 68-18	
Serial bonds, maturing through 2034 with interest ranging from 3.30% to 6.50%	\$ 802,735,000
Term bonds, maturing through 2039 with interest ranging from 4.00% to 6.00%	733,670,000
Capital appreciation bonds, maturing through 2026 with interest ranging	
from 4.36% to 4.58%	23,888,500
Subtotal	1,560,293,500
RESOLUTION 98-06	
Serial bonds, maturing through 2037 with interest ranging from 2,25% to 5.75%	1,862,230,000
Term bonds, maturing through 2046 with interest ranging from 2.25% to 5.75%	2,208,795,000
Capital appreciation bonds, maturing through 2026 with interest ranging	
from 4.47% to 5.08%	93,364,236
LIBOR based interest rate bonds maturing through 2045	389,060,000
Consumer Price Index based interest rate bonds maturing through 2028	57,965,000
Subtotal	4,611,414,236
RESOLUTION 04-18	
Serial bonds, maturing through 2021 with interest ranging from 2.25% to 5.00%	107,815,000
Total bonds outstanding	6,279,522,736
Add net unamortized premium	347,955,486
Less unamortized loss on advance refundings	(109,738,944)
Net bonds payable	6,517,739,278
Less current portion	(120,095,000)
Long-term portion	\$ 6,397,644,278

Notes to Financial Statements (continued)

9. Bonds Payable (continued)

The bonds are secured by a pledge of the gross receipts of the gasoline excise taxes and one half of the diesel oil excise taxes, a maximum of \$11 million monthly (but not more than \$120 million annually) derived from excise taxes over crude oil and its derivatives, \$15 per vehicle per year from motor vehicle license fees, the proceeds of any other taxes, fees or charges which the Legislature of Puerto Rico may allocate to the Authority in the future and which the Authority may pledge, proceeds of any tolls or other charges which the Authority may impose for the use of any of its traffic facilities and certain investment earnings.

The proceeds of the gasoline tax, the gas oil and diesel oil tax, the crude oil tax and the motor vehicle license fees allocated to the Authority are taxes and revenues available under the Constitution of the Commonwealth of Puerto Rico for the payment of principal and interest of bonds. Accordingly, if needed, they are subject to being applied first to the payment of debt service on the public debt of the Commonwealth, but such taxes and license fees are to be used for such payments only if and to the extent that all other available revenues of the Commonwealth under the Constitution are insufficient for such purpose. The Commonwealth has never applied these revenues for such payments.

The Bond Resolutions further provide that receipts of pledged revenues be deposited in certain accounts with the Fiscal Agent for the payment of interest and principal of the bonds outstanding.

Nothing in the Bond Resolutions is to be construed as preventing the Authority from financing any facilities authorized by the Act that created the Authority, as amended, through the issuance of bonds or other obligations, which are not secured under the provisions of the Bond Resolutions.

Notes to Financial Statements (continued)

9. Bonds Payable (continued)

A summary rollforward of bonds payable at June 30, 2010, is as follows:

				June 30, 2010		
	Balance at	Issuance/		Payments/	Balance at	 Current
	2009	Accretions		Amortization	2010	Portion
Serial bonds						
Resolution 68-18	\$ 846,655,000	\$	- S	(43,920,000)	\$ 802,735,000	\$ 59,185,000
Resolution 98-06	1,915,630,000			(53,400,000)	1,862,230,000	53,975,000
Resolution 04-18	114,585,000			(6,770,000)	107,815,000	6,935,000
Total	2,876,870,000		_	(104,090,000)	2,772,780,000	 120,095,000
Term bonds						
Resolution 68-18	733,670,000			_	733,670,000	
Resolution 98-06	2,208,795,000			_	2,208,795,000	www.
Total	2,942,465,000		-		2,942,465,000	
Bond anticipation note	400,000,000		_	(400,000,000)	_	_
CPI based interest-rate bonds						
Resolution 98-06	57,965,000		-	NAME OF THE PARTY.	57,965,000	NOTES
LIBOR based interest-rate bonds						
Resolution 98-06	389,060,000			Minus	389,060,000	ww
Capital appreciation bonds						
Resolution 68-18	22,839,669	1,048,8	31		23,888,500	
Resolution 98-06	88,951,198	4,413,0	38		93,364,236	_
Total	111,790,867	5,461,8	59		117,252,736	
Total bonds outstanding	\$ 6,778,150,867	\$ 5,461,8	69 \$	(504,090,000)	\$ 6,279,522,736	\$ 120,095,000

The LIBOR based interest-rate bonds consist of \$389 million of the 2007 Series N. The Series N LIBOR Bonds bear interest from their date of delivery at a per annum rate for each period equal to (a) 67% of the Three-Month LIBOR Rate for such period plus (b) a per annum spread equal to 0.53%. In each case the LIBOR-based interest rate cannot exceed the maximum rate permitted under Puerto Rico law (currently 12%).

The Series 2008A LIBOR bonds (Bond Anticipation Note) matured in August 2009 and bore interest at the index of one month LIBOR plus a spread of 225 base points not to exceed 12%. The maturity date was subsequently extended.

Notes to Financial Statements (continued)

9. Bonds Payable (continued)

Interest on the Consumer Price Index ("CPI") Bonds will be payable on the first Business Day of each month commencing on July 2, 2007. The CPI Rate, which will be reset monthly, is an interest rate based on changes in the CPI and cannot exceed the maximum rate permitted under the Puerto Rico law (currently 12%).

In connection with the issuance of the CPI, LIBOR bonds and USD SIFMA index based interestrate bonds, the Authority has entered into interest-rate swap agreements. In general, the swap agreements provide that, subject to the terms thereof, the Authority will pay to the swap provider a fixed rate and the swap provider will pay to the Authority a floating rate based on the CPI or LIBOR rate, based on a notional amount equal to the principal amount of the CPI and LIBOR bonds outstanding. The purpose of the swap agreement is generally to convert the Authority's floating rate obligations with respect to the CPI and LIBOR bonds to fixed rate obligations.

Debt Maturities

The outstanding bonds as of June 30, 2010 require future payments of principal and interest as follows:

Fiscal years ended June 30,	F	Principal		Interest		Total
2011	\$	120 005 000	ď	214 567 414	ď	424 662 414
·	-	120,095,000	\$	314,567,414	\$	434,662,414
2012		129,980,000		304,595,461		434,575,461
2013		157,645,000		297,863,677		455,508,677
2014		166,090,000		289,412,198		455,502,198
2015		176,295,000		280,436,538		456,731,538
2016-2020		168,913,750		287,794,324		456,708,074
2021-2025	1,	006,168,195		1,266,117,667		2,272,285,862
2026-2030		865,821,836		983,626,671		1,849,448,507
2031-2035	1	908,820,715		802,773,166		1,711,593,881
2036-2040	1,	164,455,000		528,480,243		1,692,935,243
2041-2045		967,428,241		230,466,850		1,197,895,091
2046-2050		447,809,999		51,166,998		498,976,997
Total	\$ 6,	279,522,736	\$	5,637,301,207	\$1	1,916,823,943

Notes to Financial Statements (continued)

9. Bonds Payable (continued)

Debt Maturities (continued)

For variable interest-rate bonds included above, the debt service requirements and net swap payments were computed assuming current interest rates remain the same for their term. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Debt Refunding

The outstanding balances as of June 30, 2010 of the bond issues defeased by the Authority are as follows:

Series D 548,575,000 Series K 485,105,000 Series B 449,600,000 Series A 36,605,000 Series G 290,770,000 Series J 269,100,000 Series H 9,905,000	Series Y	\$ 437,680,000
Series B 449,600,000 Series A 36,605,000 Series G 290,770,000 Series J 269,100,000	Series D	548,575,000
Series A 36,605,000 Series G 290,770,000 Series J 269,100,000	Series K	485,105,000
Series G 290,770,000 Series J 269,100,000	Series B	449,600,000
Series J 269,100,000	Series A	36,605,000
	Series G	290,770,000
Series H 9,905,000	Series J	269,100,000
	Series H	9,905,000
Total outstanding defeased bond issued \$ 2,527,340,000	Total outstanding defeased bond issued	\$ 2,527,340,000

10. Derivatives

In order to protect against the potential of rising interest rates, the Authority entered into pay fixed, receive variable interest-rate swap agreements in the following bonds: \$389 million LIBOR based interest-rate bonds; \$200 million USD SIFMA Swap Index based interest rate bonds and \$58 million CPI based interest-rate bonds. The counterparties are Citibank, N.A, ("Citibank), Morgan Stanley Capital Services, Inc ("Morgan") and UBS Financial Services ("UBS").

Notes to Financial Statements (continued)

10. Derivatives (continued)

Terms and Fair Values

The credit ratings of the counterparties, terms and fair value of the outstanding swaps as of June 30, 2010, are as follows:

Counter Party	Rating (1)	Objective		Notional Amount	Effective Date	Fixed Rate	Variable Rate	Maturity Date	2010 Fair Value
Citibank	A3/A/A+	Hedge of changes in cash flows on the Series N bonds	\$	233,440,000	3/6/2007	4.106%	67% of LIBOR interest rate plus a spread of .53%	7/1/2045	\$ (53,556,320)
Citibank	A3/A/A+	Hedge of changes in cash flows on the Series N bonds	\$	155,620,000	3/6/2007	4.107%	67% of LIBOR interest rate plus a spread of .53%	7/1/2041	(34,478,151)
Morgan	A2/A/A	Hedge of changes in eash flows on the Series N bonds	\$	57,965,000	3/6/2007	4.050% - 4.060%	Consumer price index rate plus a spread of 1,12%	7/1/2027 - 7/1/2028	(3,054,519)
Morgan	A2/A/A	Hedge of changes in cash flows on the Series A bonds	*\$	150,000,000	5/27/2008	4.060%	USD SIFMA swap indez less a spread of .5%	7/1/2028	(26,115,649)
UBS	Aa3/A+/A+	Hedge of changes in cash flows on the Series A bonds	\$	50,000,000	5/27/2008	4.370%	USD SIFMA swap indez less a spread of .5%	7/1/2028	(8,822,394)

⁽¹⁾ Moody's Investors Service, Standard & Poor's and Fitch, respectively.

The notional amounts of the swaps match the principal amount of the associated debt. The swap agreements contain scheduled reductions to outstanding notional amounts that follow scheduled reductions in the associated debt.

Notes to Financial Statements (continued)

10. Derivatives (continued)

Fair Values

The fair value estimates reflected on the statement of net assets are based on pertinent information available to management at each statement of net assets date. Relevant market interest rates as of June 30, 2010, valuation date of the swaps, were lower than market interest rate on the effective date of the swaps. Consequently, as of the valuation date the swaps had a negative fair value. The fair values listed in the above table represent the theoretical cost of terminating the swaps. The fair values were estimated using present value models that take into consideration several factors, including volatility. The fair values presented have not been comprehensively revalued for purposes of these financial statements since June 30, 2010, and current estimates of fair value may differ significantly from the amounts presented herein.

As of June 30, 2010, the swaps had a negative fair value of approximately \$126 million. The negative fair value of the swaps may be countered by reduction in future net interest payments required on the variable-rate bonds, creating higher synthetic rates.

Credit risk – Because all of the Authority's swaps rely upon the performance of the third parties who serve as swap counterparties, the Authority is exposed to credit risk, or the risk that the swap counterparty fails to perform according to its contractual obligations. The appropriate measurement of this risk at the reporting date is the fair value of the swaps, as shown in the columns labeled Fair Value in the tables above. When the fair value is positive the counterparty owes the Authority, which creates a credit risk for the Authority. When the fair value is negative the Authority owes the counterparty and therefore the Authority does not possess credit risk. The Authority minimizes the credit risk in derivative instruments by entering into transactions with counterparties whose credit rating is acceptable under the investment policies of the Authority.

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Notes to Financial Statements (continued)

10. Derivatives (continued)

Fair Values (continued)

As of June 30, 2010, the Authority was not exposed to credit risk because the swaps had a negative fair value in the amount of the swaps' fair value. However, should interest rates change and the fair value of the swap become positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value.

Termination risk – The Authority's swap agreements do not contain any out-of-the-ordinary termination events that would expose it to significant termination risk. In keeping with market standards the Authority or the counterparty may terminate each swap if the other party fails to perform under the terms of the contract. In addition, the swap documents allow either party to terminate in the event of a significant loss of creditworthiness. The Authority views such events to be remote at this time. If the swap is terminated, the variable-rate bond would no longer carry a fixed interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

Rollover risk – the Authority is not exposed to rollover risk since the due date of the swaps is the same due date of the related bonds.

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Notes to Financial Statements (continued)

11. Borrowings under Lines of Credit

At June 30, 2010, lines of credit consist of the following:

Description		2010
Non-revolving line of credit of up to \$122,113,000 bearing interest at the Government Development Bank cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (4.75% at June 30, 2010), which expires on August 31, 2012.	s	122,113,000
Non-revolving line of credit of up to \$25,000,000 bearing interest at the Government Development Bank cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (4.75% at June 30, 2010), which expires on August 31, 2012.		25,000,000
Non-revolving line of credit of up to \$140,000,000 bearing interest at the Government Development Bank cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (4.75% at June 30, 2010), which expires on August 31, 2011.		140,000,000
Non-revolving line of credit of up to \$15,000,000 bearing interest at the Government Development Bank cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (4.75% at June 30, 2010), which expires on August 31, 2012.		15,000,000
Non-revolving line of credit of up to \$78,300,000 bearing interest at the Government Development Bank cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (4.75% at June 30, 2010), which expires on August 31, 2012.		78,300,000
Non-revolving line of credit of up to \$400,000,000 bearing interest at the Government Development Bank cost of funding for tax exempt or variable rate loan transactions plus a margin of 275 basis points (6.00% at June 30, 2010), which expires on August 30, 2011.		400,000,000
Non-revolving line of credit of up to \$111,000,000 bearing interest at the Government Development Bank cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (4.75% at June 30, 2010), which expires on August 30, 2011.		111,000,000
Non-revolving line of credit of up to \$37,900,000 bearing interest at the Government Development Bank cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (4.75% at June 30, 2010), which expires on August 30, 2011.		37,900,000
Revolving line of credit of up to \$20,000,000 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transaction plus a margin of 125 basis points (4.75% at June 30, 2010), which expires on August 30, 2012.		
Non-revolving line of credit of up to \$3,000,000 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6% at June 30, 2010), which expires on December 31, 2011. Total		929,313,000

Notes to Financial Statements (continued)

12. Retirement Plan

Substantially all the Authority's employees participate in the Retirement System of the Commonwealth of Puerto Rico ("the System"), a cost-sharing multi-employer defined benefit pension plan. Payroll for employees covered by the System for the year ended June 30, 2010 was approximately \$93 million.

All Authority's employees, who at the time of employment are 55 years old or less, are eligible to participate in the System. Employees who retire at or after age 55 with 25 years of credited service or age 58 with 10 years of credited service are entitled to a retirement benefit, payable each month for life, computed based on a benefit rate set forth by Commonwealth statute.

The System also provides death and disability benefits established by Commonwealth statute. Commonwealth legislation requires employees to contribute 5.775% of the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Authority is required by the same statute to contribute 9.275% of the participant's gross salary.

On September 24, 1999, an amendment to Act No. 447 of May 1, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Employees joining the Authority on or after January 1, 2001, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which takes into account each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) and investment income as defined in the Plan. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000.

Notes to Financial Statements (continued)

12. Retirement Plan (continued)

Total employer contributions (rounded) for the years ended June 30, 2010, were approximately as follows:

Traditional Plan	\$ 4,535,000
System 2000	\$ 2,796,000

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2010, a copy of which can be obtained from the Retirement System Administration, Minillas Station, P.O. Box 42003, San Juan, PR 00940.

The Authority has a labor union contract that provides all union employees who work for the Authority upon retirement with the following lump-sum bonus payable at the retirement date computed as follows:

Years Worked	Amount
10-15 years	\$170 per year of service
16-20	\$200 per year of service
21-25	\$225 per year of service
26-30	\$250 per year of service

In addition, management employees have similar benefits under the same conditions granted to labor union personnel, as detailed above.

Notes to Financial Statements (continued)

13. Other Post-Employment Benefits

The Authority has implemented GASB Statement No. 45, Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions (GASB 45). This Statement establishes the standards for the measurement, recognition, and display of Other Postemployment Benefits ("OPEB") expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

Postemployment benefits are part of an exchange of salaries and benefits for employee services rendered. Most OPEB have been funded on a pay-as-you-go basis and have been reported in financial statements when the promised benefits are paid. GASB 45 requires state and local government's financial reports to reflect systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with the OPEB and whether and to what extent progress is being made in funding the plan.

Plan Description

The Authority agreed to provide medical, pharmacy, dental and vision medical insurance coverage to eligible retirees, its spouses and dependents, for a period of two years after retirement as a single employer defined benefit Other Post Employment Benefit Plan ("The Plan"). The Plan can be amended by action of the Authority subject to applicable collective bargaining and employment agreements. The Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

Funding Policy

The obligations of the plan members' employer are established by action of the Authority pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement. The Authority currently contributes enough money to the plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the plan are paid by the Authority.

Notes to Financial Statements (continued)

13. Other Post-Employment Benefits (continued)

Annual OPEB Cost and Net OPEB Obligation

The Authority's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer ("ARC"). The Authority has engaged an actuary to calculate the ARC and related information per the provisions of GASB Statement 45 for employers in the Plan with more than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Authority's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan, and the Authority's net OPEB obligation to the Plan at June 30:

Annual required contribution (ARC)	\$ 756,104
Adjustment to annual required contribution	(2,879)
Annual OPEB cost (AOC)	753,225
Contribution made	832,500
Decrease in net OPEB obligation	(79,275)
Net OPEB obligation at beginning of year	143,861
Net OPEB obligation at end of year	\$ 64,586

The Authority's annual OPEB cost, percentage of annual OPEB cost contribution to the plan, and net OPEB obligation for the year ended June 30, 2010 were as follows:

Fiscal Year Ended	Annual PEB Cost	Percentage of Annual OPEB Cost Contributed	et OPEB bligation
2010	\$ 753,225	110.00%	\$ 64,856

Notes to Financial Statements (continued)

13. Other Post-Employment Benefits (continued)

Annual OPEB Cost and Net OPEB Obligation

As of June 30, 2010, the actuarial accrued liability for benefits was \$7,185,000, all of which were unfunded. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$91,396,000 during the year ended June 30, 2010, and the ratio of the unfunded actuarial accrued liability to the covered payroll was approximately eight percent (8%) as of June 30, 2010.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to the point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The valuation date was July 1, 2009 and the *Projected Unit Credit Cost Method* was used. The actuarial assumptions were based on a set of assumptions modified to the Authority.

Turnover rates were taken from a standard actuary table, T-5. This table was chosen so as to match the Authority historical turnover experience. Retirement rates were also based on recent Authority experience, but are less reliable due to the size of the current retiree group and the relative newness of the program.

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Notes to Financial Statements (continued)

13. Other Post-Employment Benefits (continued)

Methods and Assumptions (continued)

A discount rate of 4% was used. This rate is the best actuarial estimate of expected long-term experience and is in accordance with guidelines for selection of these rates under GASB 45. The healthcare trend rates are based on the actuarial knowledge of the general healthcare environment and the specific coverage offered by the Authority.

14. Commitments and Contingent Liabilities

Construction

As of June 30, 2010, the Authority had commitments of approximately \$641 million related to construction contracts.

Leases

The Authority has various non-cancelable operating leases for office space with the Puerto Rico Public Buildings Authority and other lessors, the latest of which expires in June 2090. The rental expense for the year ended June 30, 2010 was approximately \$1,083,000. Future rental payments as of June 30, 2010 under these leases are as follows:

Year ending June 30,	
2011	\$ 871,365
2012	871,365
2013	871,365
2014	871,365
2015	871,365
2016-2020	4,356,824
Thereafter	 3,428,514
	\$ 12,142,163

Notes to Financial Statements (continued)

14. Commitments and Contingent Liabilities (continued)

Litigation

Tren Urbano

STT Complaint

On December 24, 2003, Siemens Transportation Partnership Puerto Rico S.E. ("STT") and others filed legal claims against the Authority in the amount of approximately \$50 million for damages, amounts withheld, acceleration of work and other causes of action in connection with the construction of the Urban Train Project.

On November 24, 2004, the Authority filed a counter claim against STT for liquidating damages as stipulated in the contract in the amount of \$100 million. The Authority amended its counter claim on November 17, 2008 to include other credits against STT. Therefore, the total claimed damages were increased to \$233 million.

Under the contractual obligations between STT and the Authority, STT was responsible to defend, indemnify and hold harmless the Authority from claims asserted by third parties against the agency for the acts and omissions by STT, or any of its subcontractors, in the Project. Presently, some Alignment Section Contractor (ASC's) has asserted claims against the Authority for damages suffered in part by STT actions or omissions amounting to \$150 million, approximately.

On September 22, 2005, the Authority filed a third party complaint for breach of contract, liquidated damages and others against various ASC's in the amount of \$25 million.

On April 20, 2007, the Administrative Judge designated this case as a complex litigation and remitted it to the Chief Justice of the Supreme Court who has to assign a presiding judge for the case.

On August 28, 2008, STT amended its complaint to adjust the amount claimed to \$114 million.

On April 21, 2009, in accordance to the calendar approved by the Court through its Order dated May 6, 2009, the PRHTA field an Amended Third Party Complaint in which, aside from amending its allegation to the already appearing parties, the guarantors and sureties and assurance companies were brought to the case.

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Notes to Financial Statements (continued)

14. Commitments and Contingent Liabilities (continued)

Litigation (continued)

Tren Urbano (continued)

STT Complaint (continued)

In June 2009, a committee was assigned to evaluate the STT claims one by one, which entailed a period of negotiation between STT and the Authority. As a result of said negotiations, on May 28, 2010 the Authority settled all claims with Siemens.

During July 2010, the Authority settled these two legal cases with STT and Necso and issued a new line of credit of \$63 million to pay the total amount of these settlements, which approximate \$62 million, and other legal claims.

Necso Complaint

On September 27, 2005, Necso Entrecanales y Cubiertas, S.A., now known as Acciona Infraestructuras S.A., and Necso/Redondo S.E. filed a complaint against the Authority due to the contractual obligations between Necso Entrecanales y Cubiertas, S.A., now known as Acciona Infraestructuras S.A., and Necso/Redondo S.E. and the Authority in the Hato Rey Contract Alignment Section 8 & 9 of the Tren Urbano Project, Contract No. AC-500084 ("Hato Rey Contract"), as amended by the Takeover Agreement signed by the parties on February 2003. Their claims are related to the performance of the work of Necso in the Hato Rey Contract. The total complaint was for approximately \$12 million.

The Authority filed its Answer to the Complaint and Counterclaim on March 14, 2006, asserting \$5 million against Plaintiffs for deficiencies, non-compliance with Contract specifications, unfinished Work, lack of replacement equipment under Contract specifications, delays and liquidated damages. The Authority amended its Answer and Counterclaim to assert additional affirmative defenses and make a variety of minor alterations to its responses to Necso's allegations. The Authority also amended its counterclaim, increasing the amount claimed against Plaintiffs from approximately \$5 million to \$20.7 million and filed a Third Party Complaint against Plaintiff's surety companies, New Hampshire Insurance Company and Liberty Mutual Insurance Company, to turn against the Labor & Material and Performance Bonds for the Project, valued at approximately \$117.4 million. The Authority's total counterclaim was valued at approximately \$20.7 million.

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Notes to Financial Statements (continued)

14. Commitments and Contingent Liabilities (continued)

Litigation (continued)

Tren Urbano (continued)

Necso Complaint (continued)

To date, the Authority has settled all claims with Acciona-Necso-Redondo on June 2010, leaving the case dismissed with no exposure.

Chartis Complaint

In December 22, 2009 Chartis insurance Company ("Chartis") file a complaint against STT and the Authority requesting a Declaratory Judgment in its favor to support its position to deny cover to Siemens' request for coverage for all costs associated to its defense and subsequent settlement reached in case KAC2003-8807 (804). The Authority was included in case merely as party with interest, but no monetary claim was asserted against it.

The only pending claims are those between the Authority, ICA (Bayamón Alignment Section) and KKZ (Río Piedras Alignment Section). Notwithstanding, the Court stayed said proceedings in light of ongoing negotiations between the Authority, ICA and KKZ.

According to current negotiation status, the Authority expects to have executed agreements with ICA and KKZ by the end of April 2011, which foresee an offset between retained funds to said contractors and the execution of pending corrective works at their respective Alignment Sections. Due to current negotiations with ICA and KKZ and the staying of the judicial proceedings, the Authority's exposure in terms of potential loss or gain for these claims is none.

Notes to Financial Statements (continued)

14. Commitments and Contingent Liabilities (continued)

Litigation (continued)

Others

Redondo Construction (RC) filed legal claims against the Authority in the amount of approximately \$38.1 million for damages, additional compensation, unpaid claims, prejudgment interests and others causes of actions related to various construction contracts. The Bankruptcy Court entered judgment on August 31, 2009. On August 31, 2009 the Bankruptcy Court entered judgment in favor of RC for approximately \$22.2 million plus prejudgment interest at 6% to 6.5%. The Authority filed several post judgment motions to amend judgment and to oppose prejudgment interests. During December 2009, the Authority was served with another claim from RC for economic damages of approximately \$40.0 million.

The Authority is defendant or co-defendant in various lawsuits for alleged damages in cases principally related to construction projects. These are generally either fully or partially covered by insurance. The contractors are required, under the terms of the construction agreements, to carry adequate public liability insurance and to hold harmless the Authority from lawsuits brought on account of damages relating to the construction of the projects.

As of June 30, 2010, the Authority, based on legal advice, has recorded a provision of approximately \$121.9 million, of which \$25 million has been classified as current, to cover probable losses on those claims not fully covered by insurance. In the opinion of legal counsel, any liability in excess of the insurance coverage and/or the recorded provision that may arise from such claims would not be significant to affect to the Authority's financial position or results of operations

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Notes to Financial Statements (continued)

14. Commitments and Contingent Liabilities (continued)

Special Facility Revenue Bonds

On December 20, 1992, the Authority and Autopistas de Puerto Rico y Compañía S.E. ("Autopistas") entered into a concession agreement ("the Concession Agreement"), amended in 1992, and again in 2004, for the design, construction, operation and maintenance of the Teodoro Moscoso Bridge ("the Bridge"), a toll bridge, which traverses the San Jose Lagoon between the municipalities of San Juan and Carolina. Autopistas designed and constructed the Bridge and commenced operating the Bridge on February 23, 1994. The initial term of this agreement is 35 years, expiring on April 3, 2027.

In March 1992, the Authority issued Special Facility Revenue Bonds, 1992 Series A, B and C amounting to approximately \$117 million for the purpose of facilitating the construction of the Bridge. The proceeds from the sale of the bonds were transferred by the Authority to Autopistas, the borrower, pursuant to a loan agreement (the Loan Agreement) by and between Autopistas and the Authority.

On October 30, 2003, the Authority issued Special Facility Revenue Refunding Bonds, 2004 Series A amounting to approximately \$153 million for the purpose of refunding the Authority's Special Facility Revenue Bonds, 1992 Series A, B, and C, which were issued to fund the construction of the Bridge, and to pay the cost of issuance of the bonds. The proceeds from the sale of the bonds were transferred by the Authority to Autopistas, pursuant to a new loan agreement by and between Autopistas and the Authority.

Under certain circumstances, the Concession Agreement may be terminated and the Authority is then obligated to assume all of the Autopistas's obligations to pay principal of, and interest on, the bonds outstanding, which pursuant to the Loan Agreement will be paid from the net revenues of the use and operation of the Bridge. The Authority does not currently expect the Concession Agreement to terminate. The outstanding bonds (including accrued interest) at June 30, 2010, amounted to approximately \$158 million.

Federal Assistance Programs

The Authority participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, or to compliance audits by grantor agencies.

Notes to Financial Statements (continued)

15. Operation and Maintenance of Urban Train System

The Authority entered into a System and Test Track Turnkey Contract ("STTT Contract") with Siemens Transportation Partnership Puerto Rico, S.E., Juan R. Requena y Asociados, and Alternate Concepts, Inc. (all together known as "Siemens") for the purpose of operating and maintaining the Tren Urbano. During 2005, the STTT Contract became effective upon the execution of the contract for an initial term of five years with an option by the Authority to extend the term for an additional five years. The compensation is based on a schedule included in the master agreement which approximates \$4 million on a monthly basis. The total annual operation and maintenance cost, including cost of insurance and electricity, for fiscal year 2010 was approximately \$58 million.

Integrated Transportation System

Costs incurred in connection with the integrated transportation system financed in part by the Authority during the year ended June 30, 2010 amounted to approximately \$10.5 million.

As authorized by Resolution 2007-40, the Authority contracted the Metropolitan Bus Authority (AMA), a public corporation of the Commonwealth of Puerto Rico, to operate the service known as Metrobus II which consists of a feeder bus service of 21 AMA routes that were changed to service the Urban Train stations. This feeder bus service is considered a key strategy for increasing rail ridership.

On April 8, 2009, by Resolution 2009-06, the Authority cancelled the contract with AMA related to Metrobus II service.

Metrobus I service consists of two express routes, Metrobus Route I and Metrobus Expreso, which provides service between the University of Puerto Rico and Old San Juan. The Authority contracted First Transit to operate this service. The service is provided seven days a week using 24 buses owned by First Transit.

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Notes to Financial Statements (continued)

16. Impact Fee and Other

The Authority charges a fee (impact fee) to real estate developers for the impact the new development will have on the Authority's transportation facilities.

Impact fee and other for the year ended June 30, 2010 consisted of:

Impact fee	\$ 4,291,713
Electronic toll label sales and fines fees	2,220,443
Metrobus fare fees	934,312
Other	1,142,244
Total	\$ 8,588,712

17. Restatement of Prior Year Audited Financial Statements (Unaudited)

During the year ended June 20, 2010, the Authority evaluated the projects included in construction in progress and found that certain projects included as in process in fiscal years 2003 through 2010 were completed and were not recorded as land, roads and bridges. In addition, the depreciation expense was not recognized for the projects that were not capitalized during these periods. The Authority also evaluated the amount of interest capitalized to construction in progress in 2010 and prior years and found that the amount capitalized was overstated. As a result, a reclassification has been recorded of approximately \$92 million from construction in progress to land, roads, and bridges within capital assets, net, in the statement of net assets and beginning net assets for the year ended June 30, 2010 was restated to reflect the correction as shown below.

The effect of the restatement was to decrease the beginning net assets at July 1, 2009 by \$9,848,953.

The effect of correction of this error as of July 1, 2009 is as follows:

Net assets at beginning of year	\$ 4,456,401,798
Prior period adjustment, unaudited	(9,848,953)
Net assets at beginning of year, as restated	\$ 4,446,552,845

Notes to Financial Statements (continued)

18. Subsequent Events

On July 1, 2010, the Authority issued \$253,670,000 of Highway Revenue Refunding Bonds (Series AA) and \$44,275,000 of Transportation Revenue Refunding Bonds (Series H) for the purpose to convert the interest rate mode from a term rate to a fixed rate. The Series AA which consists of \$188,395,000 aggregate principal amount of Series AA-1 Bonds and \$65,275,000 aggregate principal amount of Series AA-2 Bonds, bear interest at a fixed rate of 4.95% and 5.30%, respectively, and are due on July 1, 2026 and 2035, respectively. The Series H bears interest at a fixed rate of 5.45% and is due on July 1, 2035.

On July 13, 2010, the Authority entered into a new non-revolving line of credit with GDB for the amount of \$63 million for the settlement of various legal cases, as described in Note 13. This line of credit matures on August 30, 2012 and bears interest daily at variable rate of interest per annum equal to Prime Rate plus 150 basis points. The interest rate shall not exceed twelve (12) percent and shall not be less than six (6) percent.

On August 27, 2010, the Authority entered into a non-revolving line of credit with GDB for the amount of \$45 million for the exclusive purpose of paying collateral posting requirements on the fixed payer swaps associated to the Authority Floating Rate Notes and to cover costs related to this financing. This line of credit matures on August 27, 2011 and bears interest daily at variable rate of interest per annum equal to Prime Rate plus 150 basis points. The interest rate shall not exceed twelve (12) percent and shall not be less than six (6) percent.

On August 27, 2010, the Authority entered into a non-revolving line of credit for the amount of \$118.3 million, for the purpose of paying certain costs incurred or to be incurred in the acquisition, construction, equipping, installation and development of certain capital improvements, and paying certain costs associated with the automatization of the Authority's toll collection system. This line of credit matures on August 27, 2013 and bear interest daily at variable rate of interest per annum equal to Prime Rate plus 150 basis points. The interest rate shall not exceed twelve (12) percent and shall not be less than six (6) percent.

Notes to Financial Statements (continued)

18. Subsequent Events (continued)

On October 21, 2010, the Government of Puerto Rico enacted Act No. 70 to incentivize an early retirement for the Authority's employees. As of October 21, 2010, the Authority received approximately five hundred (500) applications for this early retirement of which two hundred and ninety (290) have been approved. This plan is expected to provide a future savings on payroll and benefits expenses for the Authority.

On November 8, 2010, the Authority entered into a new agreement with GDB for the amount of \$83.8 million to increase the \$45 million nonrevolving line of credit agreed on August 27, 2010, with the same loan terms.

On January 26, 2011, the Authority received an extension for its lines of credit amounting to \$122.1 million, \$25 million, \$15 million, and \$78.3 million, which were due on June 30, 2011. The maturity date of these lines of credit was extended to August 31, 2012.

19. Fiscal Condition

The Authority faces a number of business challenges that have been exacerbated by the Commonwealth's economic recession and the fact that the Authority has not increased tolls to its customers at sufficient levels to offset the effects of its rising costs. Its principal challenges, some of which are interrelated, are: (i) reduction of operating costs; (ii) increase in the use of federal grants; and (iii) improving its liquidity. The Authority is committed to take all necessary measures to ensure it achieves a healthy financial condition.

20. Financial Covenants and Fiscal Oversight Agreement

The Authority's Resolutions 68-18, 98-06 and 04-18 (the Resolutions) contain distinct financial covenants requiring the maintenance of certain financial ratios. In addition, the Resolutions contain a covenant which requires audited financial statements to be issued within 120 days after its fiscal year end (October 29).

As of June 30, 2010, the Authority was not in compliance with this requirement. However, failure by the Authority to meet this covenant does not constitute an event of default under the Resolutions. The Authority is taking the necessary actions to comply with the financial covenant requirements.

Notes to Financial Statements (continued)

20. Financial Covenants and Fiscal Oversight Agreement (continued)

On July 6, 2009, the Authority entered into a Fiscal Oversight Agreement (the Agreement) with the Government Development Bank (GDB). The Agreement requires the Authority to comply with certain covenants, which are mainly composed of reporting requirements. Failure to meet these covenants grants the GDB additional oversight powers over the Authority, but do not constitute events of default of the lines of credit that the Authority has with the GDB.

As of June 30, 2010, the Authority was not in compliance with the Agreement. The Authority is taking the necessary actions to comply with the covenant requirements and is in compliance with the covenants established by the Agreement as of the date of the issuance of the financial statements.

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Required Supplementary Information

Schedule of Funding Progress for Retiree Health Plan

Year Ended June 30, 2010

Actuarial valuation date - June 30, 2009

Actuarial accrued liability: Active participants Retirees participants Total	\$ 4,984,100 2,201,000 7,185,100
Actuarial value of plan assets Unfunded actuarial accrued liabilities	\$ 7,185,100
Funded ratio	0%
Covered payroll	\$ 91,396,000
Ratio of unfunded actuarial accrued liability to covered payroll	8%_

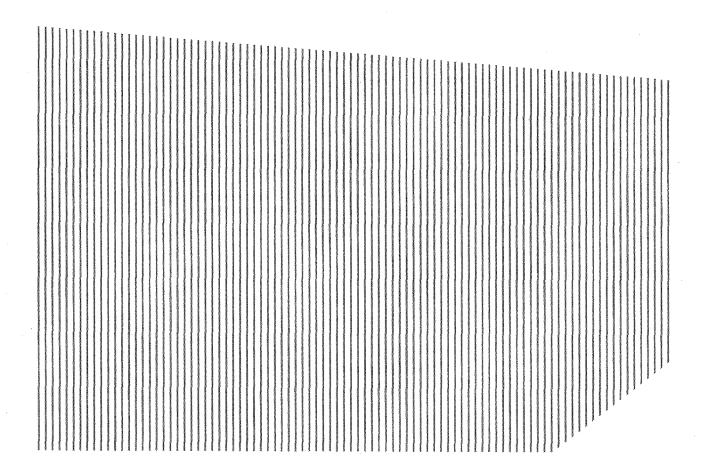
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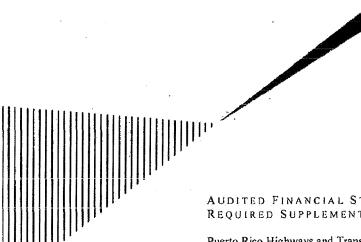
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AUDITED FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION

Puerto Rico Highways and Transportation Authority (A Component Unit of the Commonwealth of Puerto Rico) Year Ended June 30, 2011 With Report of Independent Auditors

■ Ernst & Young

Audited Financial Statements and Required Supplementary Information

Year Ended June 30, 2011

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Report of Independent Auditors

Hon. Rubén Hernández Gregorat, Secretary Department of Transportation and Public Works Commonwealth of Puerto Rico

We have audited the accompanying statement of net assets of Puerto Rico Highways and Transportation Authority (the Authority), a component unit of the Commonwealth of Puerto Rico, as of June 30, 2011, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Authority's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Puerto Rico Highways and Transportation Authority at June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As more fully described in Note 22 to the financial statements, net assets as of June 30, 2010 have been restated to correct misstatements in capital assets, interest payable, and accounts and subcontractors payable as of June 30, 2010. Our previously issued audit report on the June 30, 2010 financial statements dated February 3, 2011 is not to be relied upon because the previously issued financial statements were materially misstated due to these misstatements.

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In accordance with Government Auditing Standards, we have also issued our report dated February 7, 2012 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 15 and the schedule of funding progress for retiree health plan on page 70 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ernst + Young LLP

February 7, 2012

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Management Discussion and Analysis

Year Ended June 30, 2011

The following discussion and analysis of the financial performance and activity of the Puerto Rico Highways and Transportation Authority (the Authority) provides an introduction and understanding of the basic financial statements of the Authority for the fiscal year ended June 30, 2011. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follows this section.

June 30, 2011

The Authority's net assets totaled \$3,742.9 million at June 30, 2011.

Net assets decreased by \$409.3 million in 2011, as compared to a decrease of approximately \$294.2 million in 2010.

The Authority's net capital assets totaled \$11,097.1 million and \$11,146.4 million at June 30, 2011 and 2010, respectively.

Net capital assets decreased by .44% at June 30, 2011, when compared with the balance at June 30, 2010 of \$11,146.4 million. Net capital assets decreased by 1.30% at June 30, 2010, when compared with the balance at June 30, 2009 of \$11,293.7 million.

The Financial Statements

The basic financial statements provide information about the Authority's business-type activities. The financial statements are prepared in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB).

Overview of the Financial Statements for Business-Type Activities

The financial statements consist of the: (1) statement of net assets, (2) statement of revenues, expenses, and changes in net assets, (3) statement of cash flows, and (4) notes to the financial statements. The financial statements are prepared on the accrual basis of accounting, meaning that all expenses are recorded when incurred and all revenues are recognized when earned, in accordance with U.S. generally accepted accounting principles.

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Management Discussion and Analysis (continued)

Statement of Net Assets

The statement of net assets reports all financial and capital resources of the Authority. The statement is presented in the format where assets equal liabilities plus net assets. Assets and liabilities are presented in order of liquidity and are classified as current (convertible into cash within one year) and noncurrent. The focus of the statement of net assets is to show a picture of the liquidity and financial health of the Authority as of the end of the year.

The Authority's net assets are reported in the following categories:

- Invested in Capital Assets, Net of Related Debt This component of net assets consists of all capital assets, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Although the Authority's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations and from gasoline and petroleum taxes allocated annually by the Commonwealth of Puerto Rico, since the capital assets themselves cannot be used to liquidate liabilities.
- Restricted for Debt Service This component of net assets consists of restricted assets for the
 principal and interest payments of the bonds payable. This restriction is imposed by the
 bondholders through debt covenants.
- Restricted for Construction This component of net assets consists of restricted assets for the
 specific purpose of paying for construction projects. This restriction is imposed by the
 grantors and contributors, as well as the bondholders through debt covenants.
- Unrestricted Net Assets This component consists of net assets that do not meet the
 definition of net assets invested in capital assets, net of related debt, or restricted for debt
 service or for construction.

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Management Discussion and Analysis (continued)

Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets includes operating revenues, which consist of toll, train fares, impact fee and other, and operating expenses, such as costs of operating the mass transportation system, administrative expenses, and depreciation on capital assets; and non-operating revenue and expenses, such as gasoline, diesel, oil and petroleum taxes, vehicle license fee, interest and investment income, and interest expense. The statement also includes capital grants. The focus of the statement of revenues, expenses, and changes in net assets is the change in net assets. This is similar to net income or loss and portrays the results of operations of the Authority for the entire operating period.

Statement of Cash Flows

The statement of cash flows discloses net cash provided by or used for operating activities, investing activities, noncapital financing activities, and from capital and related financing activities. This statement also portrays the health of the Authority in that current cash flows are sufficient to pay current liabilities.

Notes to Financial Statements

The notes to financial statements are an integral part of the basic financial statements and describe the significant accounting policies, related-party transactions, deposits and investments, capital assets, capital lease obligations, bonds payable, long-term liabilities, defined-benefit pension plans, derivative financial instruments, and the commitments and contingencies. The reader is encouraged to review the notes in conjunction with the management discussion and analysis and the financial statements.

Management Discussion and Analysis (continued)

Financial Analysis of the Authority's Business-Type Activities

Statements of Net Assets

The following table reflects a condensed summary of assets, liabilities, and net assets of the Authority as of June 30, 2011 and 2010:

	June 30		
		2011	2010
•			(as restated)
Assets			
Current assets	\$	42,126,457	\$ 36,783,728
Restricted assets	٠	841,396,278	838,033,788
Capital assets, net		11,097,113,203	11,146,441,190
Other assets		175,783,151	242,748,121
Total assets	\$	12,156,419,089	\$12,264,006,827
Liabilities		•	
Current liabilities	\$	583,929,310	\$ 547,806,022
Long-term liabilities, net	٠	7,829,544,001	7,563,894,428
Total liabilities		8,413,473,311	8,111,700,450
•		<i>‡</i>	
Net assets			,
Invested in capital assets, net			
of related debt		3,262,710,495	3,586,268,777
Restricted for debt service		520,346,513	572,320,648
Restricted for construction		65,696,842	68,689,451
Unrestricted		(105,808,072)	(74,972,499)
Total net assets		3,742,945,778	4,152,306,377
Total liabilities and net assets	\$	12,156,419,089	\$12,264,006,827

Management Discussion and Analysis (continued)

June 30, 2011 and 2010

Current assets increased by 14.52% to \$42.1 million in 2011 and decreased by 33.8% to \$36.7 million in 2010. For fiscal year 2011, the change in current assets is primarily due to a increase in accounts receivable of approximately \$3.9 million due to a transfer of funds and operational expenses paid belonging to Maritime Transportation Authority (MTA) by \$3.8 million; for fiscal year 2010, the change in current assets was primarily due to a decrease in accounts receivable of approximately \$16.9 million due to a resolution approved by the Puerto Rico Legislative Body to collect \$10.0 million from the Puerto Rico Department of Treasury.

The restricted assets increased by .40% to \$841.3 million in 2011, increased by 1.2% to \$838.0 million in 2010. For fiscal year 2011, the increase consisted of an increase in cash and cash equivalents, and cash and investments with trustee of approximately \$11.9 million, for fiscal year 2010, the increase consisted basically of a decrease in cash and cash equivalents and cash in investments with trustee of approximately \$9.3 million and an increase in restricted receivables of \$19.3 million.

For fiscal year 2011, capital assets decreased by .44% to \$11,097.1 million mainly due to a net decrease in construction in progress of approximately \$106.3 million and an increase in accumulated depreciation of approximately \$408.7 million; for fiscal year 2010, capital assets decreased by 1.30% to \$11,146.4 million mainly due to a net decrease in construction in progress of approximately \$220.5 million and an increase in accumulated depreciation of approximately \$395.7 million. Capital assets are funded mainly with the proceeds of bonds and notes and with capital grants from the Federal Highways Administration (FHWA). Total capital grants from FHWA during fiscal years 2011 and 2010 used to fund capital assets amounted to approximately \$137 million and \$98 million, respectively.

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Puerto Rico Highways and Transportation Authority (A Component Unit of the Commonwealth of Puerto Rico)

Management Discussion and Analysis (continued)

For fiscal year 2011, other assets decreased by 27.5% to \$175.7 million due to a decrease in deferred unrealized loss on derivative instruments in 2011 by \$63.2 million. For fiscal year 2010, other assets increased by 20.6% to \$242.7 million due to an increase in deferred unrealized loss on derivative instruments in 2010 by \$126 million. For 2011 and 2010, there was a decrease in revenue bonds issuance cost resulting from the current year amortization.

For the years ended June 30, 2011 and 2010, the current liabilities increased by 6.5% to \$583.9 million in 2011 and increased by 10.5% to \$547.8 million in 2010. In 2011, the factors that caused the increase were mainly the net effect of an increase in account payable and accrued liabilities. In 2010, the factors that caused that increase were mainly the net effect of an increase in subcontractor payable, current accrued legal claims, and current portion of bonds payable offset by a decrease in accounts payable.

Long-term liabilities, net, increased by 3.5% to \$7,829.5 million due principally to a net effect of a increase non-revolving lines of credit and a decrease in bonds payable, net, in 2011; long-term liabilities, net, increased by 1.7% to \$7,563.9 million due principally to a net effect of an increase in accrued legal claims and non-revolving lines of credit and a decrease in bonds payable, net, in 2010.

For fiscal years 2011 and 2010 net assets decreased by 9.84% to \$3,743.5 million and decreased by 6.62% to \$4,152.3 million, respectively, principally due to a reduction in the invested in capital assets and unrestricted net assets.

Management Discussion and Analysis (continued)

Condensed Statements of Revenues, Expenses and Changes in Net Assets

The following table reflects a condensed summary of the revenues, expenses, and changes in net assets for the years ended on June 30, 2011 and 2010.

	June 30		
	2011 2010		
	(as restated)		
Total operating revenues	\$ 227,916,473 \$ 222,363,310		
Total operating expenses	334,654,082 261,586,692		
Depreciation and amortization	424,041,251 411,698,825		
Operating loss	(530,778,860) (450,922,207		
Non-operating revenues	304,445,431 314,177,438		
Non-operating expenses	(365,683,858) (325,187,043		
Loss before capital grants	(592,017,287) (461,931,812		
Capital grants	182,656,688 167,685,344		
Change in net assets	(409,360,599) (294,246,468		
Net assets at beginning of year	4,152,306,377 4,446,552,845		
Net assets at end of year	\$ 3,742,945,778 \$ 4,152,306,377		

Management Discussion and Analysis (continued)

Years Ended June 30, 2011 and 2010

Operating revenues, which consisted of toll fares, train fares and other revenues increased by 2.5% to \$227.9 million in 2011 mainly due to an increase in toll fares of \$3 million, and a decrease by 2.9% to \$222.3 million in 2010 mainly due to a decrease in impact fee and other income of \$3.9 million. During fiscal year 2011, the increase is due to the upward turn in retail sales of automobile and light trucks contributing to improve the increase in toll revenues. During fiscal year 2010, the decrease is due to a reduction in the construction industry as a result of general economic conditions in Puerto Rico.

Operating expenses increased by 27.93% to \$334.6 million in 2011 and decreased by 18.07% to \$261.5 million in 2010. For 2011, the increase is mainly due to a program that provides benefits for early retirement and/or economic incentives for voluntary employment termination to eligible employees of the Authority with a financial impact of \$77.1 million; for 2010, the decrease was due to decreases in repairs and maintenance of roads and bridges and in operating and maintenance costs for train, and integrated transportation system costs.

Non-operating revenues, which consist principally of gasoline, oil, diesel and petroleum tax revenues, vehicle license fees allocated by the Commonwealth of Puerto Rico to the Authority, reflected a decrease of 3% and 3.6%, in 2011 and 2010, respectively. During fiscal year 2011, the decrease is mainly due to the fact that during that year the Authority collected less gasoline, oil, diesel and petroleum tax revenues due to result of general economic conditions in Puerto Rico.

During fiscal year 2010, the decrease was mainly due to the fact that during year 2009, the Authority collected additional vehicle license fee of approximately \$4 million as part of a reconciliation procedure with the Puerto Rico Treasury Department.

Non-operating expenses, which consist principally of interest expense on bonds and line of credit, net of investment income increased by 12% to \$365.6 million and by 15% to \$325.1 million in 2011 and 2010, respectively. For 2011, this increase is due to a net effect of an increase in the interest expense on swap agreements by \$4.9 million and a decrease in fair value upon hedge termination investment income by \$35 million, and for 2010, this increase is a net effect of an increase in the interest on line of credit by \$31.2 million and a decrease in investment income by \$13.5 million.

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Management Discussion and Analysis (continued)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011 and 2010, the Authority had invested approximately \$11,096.8 million, and \$11,146.4 million, respectively, in capital assets (net of related depreciation) including roads, bridges, transportation equipment, buildings, land and equipment and construction in progress.

At the end of fiscal year 2005, the Authority started operating the mass rail transportation system for the San Juan Metropolitan area known as "Tren Urbano". The Authority incurred approximately \$2.42 billion in costs, \$685.7 million paid with federal funds, for this project which consists of approximately 17 km. of track running from Bayamón to Santurce. Maintenance services are partially funded with capital grants from the Federal Transit Administration (FTA). Total capital grants received from FTA during fiscal year 2011 and used for maintenance services amounted to \$12 million.

The Authority extended the original five-year contract for the operation and maintenance of the Tren Urbano with a private company, for five (5) additional years ending on June 5, 2015. Under this agreement, the private company is responsible for operating and maintaining Tren Urbano and is entitled to receive for such services an annual base compensation, subject to inflation adjustment for changes in cost of labor and materials. The base compensation does not include the cost of insurance and electricity which is paid by the Authority.

Debt Administration

As of June 30, 2011 and 2010, the principal amount of the Highways and Senior Transportation, and Grant Anticipation Revenues Bonds outstanding, net of unamortized discounts and net losses on advance refunding, which approximated \$6,386.9 million and \$6,517.7 million, respectively, were insured and rated Baa3 by Moody's Investors Service (Moody's), respectively, and BBB by Standard & Poor's (S&P) for the Senior Bonds and BBB+ for the other bonds. The remaining uninsured bonds are rated Baa1 by Moody's and A by S&P, except for the Subordinated Transportation Revenue Bonds, which are rated Aaa and A, respectively.

Management Discussion and Analysis (continued)

On May 1, 2008, the Authority issued \$400 million of Subordinated Transportation Revenue Bonds (Series 2008A). The Proceeds from the Series 2008A bonds were used to repay the Subordinated Transportation Revenue Bonds from Series 2006A, 2007A and 2007B.

The Authority's bond sales must be approved by the Secretary of Transportation and Public Works, who exercises the powers of the Governing Board of the Authority in coordination with the Government Development Bank for Puerto Rico and the Fiscal Agent of the Commonwealth of Puerto Rico. The Authority must comply with certain rules and regulations of the United States Treasury Department and the United States Securities and Exchange Commission relating to such sales.

In connection with the issuance of the CPI and LIBOR Bonds, the Authority has entered into interest-rate swap agreements. In general, the swap agreements provide that, subject to the terms thereof, the Authority will pay to the swap provider a fixed rate and the swap provider will pay to the Authority a floating rate based on the CPI or LIBOR Rate, based on a notional amount equal to the principal amount of the CPI and LIBOR Bonds outstanding. The purpose of the swap agreement is generally to convert the Authority's floating rate obligations with respect to the CPI and LIBOR Bonds to fixed rate obligations.

ECONOMIC FACTORS AND 2011 BUDGET

The economy of Puerto Rico must be analyzed as a region of the U.S. economy, since it is part of the U.S. monetary and banking system and it is located within its custom and territorial boundaries. The main driver of the Puerto Rico economy is a huge external sector closely tied to the flow of merchandise, tourists, and capital between Puerto Rico and the U.S. Thus, historically, the real growth rate of the Puerto Rican economy has followed that of the U.S. economy, except in periods of energy crisis, when the rise in oil prices exerted a more profound negative effect on the level of economic activity in Puerto Rico than in the United States. According to the National Bureau of Economic Research (NBER), the U.S. economy entered into a recessionary period in December 2007, which turned into a deep recession in the third quarter of 2008, concurrent with a U.S. and global financial and housing market crises. The current recession has been the longest and deepest since the Great Depression of the nineteen thirties. In fiscal year 2009, real Gross National Product (GNP) dropped by -3.55% in the United States, concurrently with a loss of 3.84 million payroll workers and a rise in the unemployment rate to an average of 7.6%. Although the NBER declared that the Great Recession was officially over as of June 2009, the U.S. economy has improved moderately, posting a meager increase of

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Management Discussion and Analysis (continued)

0.25% increase in real GDP in fiscal year 2010, then expanding at a rate of 2.62% in fiscal year 2010, but is expected to slow again in fiscal years 2012 and 2013. According to the latest forecast of Global Insight, U.S. real GDP will grow at low rates of 1.44% in fiscal year 2012 and 1.61% in fiscal year 2013. Payroll employment experienced a loss of 4.22 million workers in fiscal year 2010, while the unemployment rate climbed to a yearly average of 9.74%. The employment situation started to improved quite moderately in the U.S. in fiscal year 2011, when payroll employment increased by 0.73 million workers and the unemployment rate dropped slightly to 9.3%. The net creation of payroll employment is expected to remain below one million workers in fiscal years 2012 and 2013, and the pre-recession level (137.7 million) will not be reach until fiscal year 2015.

In fiscal year 2011 Puerto Rico real GDP declined by -0.96%, according to the latest estimate of the Planning Board. This behavior of real GNP represents a relative improvement over the steep declines, greater than -3.5%, experienced by the Puerto Rican economy in fiscal years 2009 and 2011. However, the fact remains that the Puerto Rican economy failed to expand in fiscal year 2011. The moderate decline in Puerto Rico real GNP during fiscal year 2011 was caused by the interaction of several factors. First, the U.S. economic recovery lost steam in the last two quarters of fiscal year 2011, posting very low growth rates of 0.36% and 1.33% in real GDP. The energy crisis was ignited again in fiscal year 2011, when the U.S. average refiners' acquisition cost increased by 23.0% and the retail price of gasoline in Puerto Rico rose by 18.1%, advancing from \$2.63 to \$3.10 per gallon. The overbuilding in the housing and business sectors continued to exert a negative impact on the construction industry. Cement consumption dropped again by -5.0% reaching 18.5 million bags, the lowest level since fiscal year 1983, while payroll construction employment dropped by -20.1%. The average payroll employment in the construction sector (28,700 workers) was 42% of the pre-recession level in fiscal year 2005. And finally, the serious fiscal crisis of the Central Government of Puerto Rico developed prior to 2009, continued to restrain government current consumption and investment in fiscal year 2011, due to the strict measures that had to be implemented to resolve the fiscal crisis. According to the Planning Board estimates, in fiscal year 2011 real government consumption declined by -3.3%, while public investment in construction decreased by -7.8%.

Management Discussion and Analysis (continued)

In spite the adverse macroeconomic environment that still prevailed in Puerto Rico during fiscal year 2011, revenues of the Highway and Transportation Authority have shown a great resilience to avoid a significant contraction. The total of the main five categories of recurrent revenues amounted to \$516.62 million, a drop of only -\$6.7 million or -1.3% over the amount in fiscal year 2010 (\$523.30 million), which can be mostly attributed to the negative impact of the renewed energy crisis on the three revenue sources related to taxes on petroleum products, i.e., gasoline tax, diesel tax and petroleum products tax. However, the analysis of the Authority's revenues in fiscal year 2011 reveals significant good news, since toil revenues increased in fiscal year 2011 for the second year in a row, although at a modest pace, after experiencing a significant decline from fiscal year 2007 to fiscal year 2009.

Revenues of the gasoline tax in fiscal year 2011 declined from \$173.9 million in fiscal year 2010 to \$169.5 million in fiscal year 2011, a relatively minor decline of \$4.4 million or 2.5%, considering the double-digit increase in the price of gasoline (18.1%) amid a stalemate in the macroeconomic environment. Revenues of the petroleum tax were also affected by the reignited energy crisis, dropping from \$98.9 million in fiscal year 2010 to \$94.4 million in fiscal year 2011, thus showing a decline of \$4.5 million or 4.6%. Revenues from the diesel tax, a minor source of Authority's revenues declined from \$9.0 million to \$7.5 million, mainly due to adjustments from the Treasury Department to disbursements of previous years, amounting to \$2.7 million. The decline in taxes related to the consumption of petroleum products (\$11.6 million), was partially offset by an increase of \$3.05 million in toll revenues, which rose from \$209.12 million in fiscal year 2010 to \$212.17 million in fiscal year 2011. The upward turn in retail sales of automobile and light trucks in fiscal year 2011, which increased to 90,547 automobiles and light trucks in fiscal year 2011 vehicles, exceeding by 8.4% the level of fiscal year 2010 (83,569 vehicles), was a factor contributing to improve the increase in toll revenues. The increase in automobile and light truck sales also helped revenues of license fees, which also show a minor increase of \$0.6 million or 2.1% in fiscal year 2011.

Management Discussion and Analysis (continued)

The Authority anticipates that it will continue to face a tough macroeconomic environment in fiscal year 2012. As indicated above, JHS Global Insight is projecting a significant decline in the growth rate of real GDP, which is expected to advance at a rate of 1.44% as compared to 2.62% in fiscal year 2010. According to the latest projection of the Puerto Rico Planning Board real GNP will remain stable in fiscal year 2012. Thus, Authority's revenues will not experience the positive impact of a growing economy. Although the intensity of the energy crisis has declined in recent months, prices of petroleum products remain at high levels. The average price of gasoline in the first five months of fiscal year 2012 (July-November) averaged \$3.54 per gallon, surpassing by \$0.89 per gallon or 31.6% the level of the same period of fiscal year 2011 (\$2.69 per gallon). Authority's revenues collected in the first quarter of fiscal year 2012 reflect the severe economic situation still prevailing in Puerto Rico, since gasoline tax revenues amounted to \$41.9 million in the first quarter of fiscal year 2012, posting a -4.1% decline over the same quarter of fiscal year 2011. Finally, we have to stress that the Public-Private Alliance (APP) agreement to operate the toll highways of PR-22 and PR-5 will affect the year-to-year comparison of toll revenues, as well as total revenues, starting in fiscal year 2012, when compared to the amount of revenues collected in previous fiscal years. The decrease in Authority's revenues resulting from the APP of PR-22 and PR-5, which started operations on September 27, 2011, will be compensated by lower operating costs to be incurred by the Authority, especially costs related to debt service.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our bondholders, patrons, and other interest parties with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have question or need additional financial information, contact the Puerto Rico Highways and Transportation Authority, Finance Area, P.O. Box 42007, San Juan, Puerto Rico 00940-2007.

Statement of Net Assets

June 30, 2011

Assets		
Current assets:		
Cash and cash equivalents	\$	26,957,862
Accounts receivable, net of allowance for		
doubtful accounts of \$47,654,248		9,773,994
Prepaid expenses and other assets		5,394,601
Total current assets		42,126,457
Restricted assets:		
Cash and cash equivalents		35,005,197
Cash and cash equivalents and investments		
with trustee		780,129,654
Receivables:		
Puerto Rico Treasury Department		609,303
U.S. federal government		24,844,089
Accrued interest and other		808,035
Total restricted assets		841,396,278
Capital assets, net	1	1,097,113,203
Deferred unrealized loss on derivative instruments		63,299,248
Revenue bonds issuance cost, net of accumulated		
amortization of \$49,553,946		112,345,959
Advances to government entity, net of allowance		•
for doubtful accounts of \$18,790,466		137,944
Total assets	\$ 17	2,156,419,089
		(Continued)

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Statement of Net Assets (continued)

June 30, 2011

Liabilities and net assets		
Current liabilities:		
Checks issued over bank balance	\$	8,443,349
Accounts payable		38,638,374
Accrued and other liabilities		30,492,655
Total current liabilities		77,574,378
Current liabilities payable from restricted assets:		
Accounts and subcontractors payable		129,385,089
Accrued interest payable		246,989,843
Current portion of bonds payable		129,980,000
Total current liabilities payable from restricted assets	•	506,354,932
Noncurrent liabilities:		
Accrued legal claims		92,666,626
Accrued vacations and sick leave		10,911,007
Fair value of derivative instruments		97,546,551
Voluntary Termination Incentive Plan Liability		77,132,035
Nonrevolving lines of credit		1,294,307,024
Bonds payable, net		6,256,980,758
Total noncurrent liabilities		7,829,544,001
Total liabilities		8,413,473,311
Net assets:		
Invested in capital assets, net of related debt	:	3,262,710,495
Restricted for debt service		520,346,513
Restricted for construction		65,696,842
Unrestricted		(105,808,072)
Total net assets		3,742,945,778
Total liabilities and net assets	\$ 12	2,156,419,089

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See accompanying notes.

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2011

Operating revenues:		
Toll and train fares	\$	220,219,632
Impact fee and other		7,696,841
Total operating revenues		227,916,473
Operating expenses:		
Salaries and related benefits		20,911,664
Post-employments benefits		77,132,035
Toll highways administration and maintenance		31,953,733
Train operating and maintenance costs		54,355,084
Integrated transportation system		25,447,052
Repairs and maintenance of roads and bridges		27,928,179
Utilities		13,623,750
Other		83,302,585
Total operating expenses		334,654,082
Operating loss before depreciation and amortization	•	(106,737,609)
Depreciation and amortization		424,041,251
Operating loss		(530,778,860)
Non-operating revenues (expenses):		
Gasoline, diesel, oil and petroleum tax revenues		271,387,767
Vehicle license fee		33,057,664
Interest on bonds and lines of credit		(353,533,274)
Investment income:		
Interest income		23,377,198
Decrease in fair value upon hedge termination		(35,527,782)
Total non-operating expenses, net		(61,238,427)
Loss before capital grants	,	(592,017,287)
Capital grants	-	182,656,688
Change in net assets		(409,360,599)
Net assets at beginning of year, as restated		4,152,306,377
Net assets at end of year	\$	3,742,945,778
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See accompanying notes.

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Statement of Cash Flows

Year Ended June 30, 2011

Operating activities	
Receipts from toll and train fares	\$ 220,219,632
Receipts from other sources	3,793,557
Payments to employees and related benefits	(24,012,900)
Payments to suppliers for goods and services	(284,078,157)
Net cash flows used in operating activities	(84,077,868)
Noncapital financing activities	
Net change in checks issued over bank balance	70,432
Net cash flows used in noncapital financing activities	70,432
Capital and related financing activities	
Receipts from U.S. federal government grants	185,627,103
Acquisition and construction of capital assets,	
net of capitalized interest	(353,732,807)
Receipts from gasoline, petroleum and	
vehicle license fees	305,062,457
Net advances from line of credit	364,994,024
Payments of bonds	(120,095,000)
Interest paid	(314,868,087)
Net cash flows provided by capital and related	
financing activities	66,987,690
Investing activities	
Payments for cash and investments with Trustee	(446,867,821)
Deposits to cash and investments with Trustee	435,220,990
Investment and interest income received	22,838,673
Net cash flows provided by investing activities	11,191,842
Net decrease in cash and cash equivalents	(5,827,904)
Cash and cash equivalents at beginning of year	67,790,963
Cash and cash equivalents at end of year	\$ 61,963,059
	(Continued)

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Statement of Cash Flows (continued)

Year Ended June 30, 2011

Reconciliation to cash and cash equivalents	
presented in the statements of net assets	\$ 26,957,862
Cash and cash equivalents	
Cash and cash equivalents - restricted	35,005,197 \$ 61,963,059
Total	\$ 61,963,059
Reconciliation of operating loss to net cash flows	
provided by operating activities	
Operating loss	\$ (530,778,860)
Adjustments to reconcile operating loss to net cash	
flows used in operating activities:	
Depreciation and amortization	424,041,251
Loss on disposition of assets	139,129
Net change in operating assets and liabilities:	
Accounts receivable	(3,903,284)
Prepaid expenses and other assets	(3,312,402)
Accounts payable	(10,186,758)
Accrued liabilities	(29,876,495)
Accrued legal claims	(4,231,248)
Accrued vacations and sick leave	(3,101,236)
Accrued voluntary incentive plan liability	77,132,035
Net cash flows used in operating activities	\$ (84,077,868)
Supplemental cash flows information	
Noncash transactions:	
Capital appreciation bonds	\$ 5,729,425
Change in fair value of derivative instruments	\$ (300,420)
Decrease in fair value upon hedge termination	\$ 35,527,782
Decided in the value appropriately	<u> </u>

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See accompanying notes.

Notes to Financial Statements

June 30, 2011

1. Organization

Puerto Rico Highways and Transportation Authority ("the Authority") is a public corporation and instrumentality of the Commonwealth of Puerto Rico, created by Act No. 74 of June 23, 1965, as amended, to provide roads and other facilities for the movement of persons, vehicles and vessels, and for the planning, promotion and feasibility of mass transportation systems. The Authority is a component unit of the Commonwealth of Puerto Rico and accordingly is included in the general-purpose financial statements of the Commonwealth of Puerto Rico. The powers normally exercised by a Board of Directors are vested with the Secretary of the Department of Transportation and Public Works (DTPW). The Authority is exempt from the payment of any taxes on its revenues and properties.

2. Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

The accounting policies of the Authority conform to generally accepted accounting principles in the United States of America, as promulgated in pronouncements of the Governmental Accounting Standards Board (GASB) and the pronouncements of the Financial Accounting Standards Board (FASB) issued before December 1, 1989, which are not in conflict with GASB pronouncements. As permitted by GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, the Authority has elected to not apply FASB pronouncements issued after November 30, 1989.

The Authority's operations are accounted for as a proprietary fund (enterprise fund) using the flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the Authority's operations are included on the statement of net assets. Revenue is recognized in the period in which it is earned and expenses are recognized in the period in which incurred.

The Authority accounts for its operations and financings in a manner similar to private business enterprises; the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Authority considers as cash and cash equivalents all highly liquid investments with original maturities at the date of purchase of three months or less.

Investments

The Authority follows the provisions of GASB No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. This statement requires investments to be reported on the statement of net assets at fair value and investment income, including changes in the fair value of investments, to be reported as non-operating income in the statement of revenues, expenses and changes in net assets. Fair values have been determined using quoted market values at June 30, 2011.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing accounts receivable that may become uncollectible based on evaluations of collectibility of accounts receivable and prior credit loss experience. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the existing accounts receivable and related allowance may change in the future.

Capital Assets

Cost basis – Capital assets are recorded at historical cost. The cost of property and equipment includes costs for infrastructure assets (rights-of-way and bridge substructures and highways and bridges), toll facilities, equipment and other related costs (including software), buildings and furniture and equipment. Highways and bridge substructures include road sub-base, grading, land clearing, embankments, and other related costs. Costs for infrastructure assets include construction costs, design and engineering fees and administrative and general expenses paid from construction monies.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

Capitalization policy – Infrastructure capital assets (road, bridges, highways, transportation equipment, etc.) are defined by the Authority as assets with an initial, individual cost of more than \$500,000 and an estimated useful life of more than one year. Other capital assets, such as equipment, vehicles, etc. are defined by the Authority as assets with an initial individual cost of more than \$100 and an estimated life of more than three years.

Costs to acquire additional capital assets, which replace existing assets or otherwise prolong their useful lives, are generally capitalized.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Interest cost is capitalized as part of the historical cost of acquiring certain assets. To qualify for interest capitalization, assets must require a period of time before they are ready for their intended purpose. Interest earned on proceeds of tax-exempt borrowings arrangements restricted for the acquisition of qualifying assets is offset against interest cost to determine the net amount to be capitalized. Interest cost is not capitalized on costs paid with the proceeds of grants or donations restricted solely for construction.

Depreciation of capital assets – Depreciation is provided using the straight-line method over an estimated useful live of 40 years for roads and highways, 50 years for bridges and transportation system (including transportation equipment and facilities) and 10 years for equipment, vehicles and other. Depreciation and amortization for the year ended June 30, 2011, amounted to approximately \$417.1 million.

Impairment of capital assets – The Authority has implemented GASB No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. The objective of GASB 42 is to establish accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries.

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Puerto Rico Highways and Transportation Authority (A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage among others.

The Authority evaluated its capital assets as required by GASB 42 and no impairment was identified during the year ended June 30, 2011.

Claims and Judgments

The estimated amount of the liability for claims and judgments is recorded on the accompanying statement of net assets based on the Authority's evaluation of the probability of an unfavorable outcome in the litigation of such claims and judgments. The Authority consults with legal counsel upon determining whether an unfavorable outcome is expected. Because of uncertainties inherent in the estimation process, management's estimate of the liability for claims and judgments may change in the future.

Vacation and Sick Leave

Employees earn annual vacation leave at the rate of 30 days per year up to a maximum permissible accumulation of 60 days for regular employees. Employees accumulate sick leave at the rate of 18 days per year. Sick leave is only payable if the regular employee resigns and has more than 10 years of employment, or retires and takes a pension. Maximum permissible accumulation for sick leave is 90 days for all employees, and the excess is paid within the next year. The Authority records as a liability and as an expense the vested accumulated vacation and sick leave as benefits accrue to employees.

The cost of vacation and sick leave expected to be paid in the next twelve months is classified as current and accrued liabilities while amounts expected to be paid after twelve months are classified as noncurrent liabilities.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Unamortized Gains/Losses on Advance Refunding

Gains/losses resulting from current or advance refunding of debt are deferred and amortized over the shorter of the life of the new debt and the remaining life of old debt. The amount deferred is reported as a reduction of the debt and the amount amortized is reported as a component of interest expense.

Bond Premiums (Discounts) and Bond Issuance Costs

Bond premiums (discounts) are presented in the accompanying statement of net assets as an increase/reduction of the face amount of bonds payable. Bond issuance costs are presented as a deferred asset in the accompanying statement of net assets. The premiums (discounts) and issuance costs are amortized over the life of the bonds using the effective interest method.

Amortization related to bond premiums (discounts) was approximately \$21.4 million for the year ended June 30, 2011, and are included as a component of interest expense in the accompanying statements of revenues, expenses and changes in net assets.

Depreciation and amortization expense in the accompanying statement of revenues, expenses and changes in net assets includes amortization of bond issuance costs for the year ended June 30, 2011 of approximately \$7 million.

Net Assets

Net assets are classified in the following four components in the accompanying statement of net assets:

Invested in Capital Assets, Net of Related Debt – This component of net assets consist of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of this component of net assets; rather, that portion of the debt is included in the same net asset component as the unspent proceeds.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Net Assets (continued)

Restricted for Debt Service – Net assets restricted for debt service consists of restricted assets for payment of principal and interest related to bonds payable. This restriction is imposed by the bondholders through debt covenants.

Restricted for Construction – Net assets restricted for construction consists of restricted assets for the specific purpose of financing the construction projects. This restriction is imposed by the grantors and contributors, as well as the bondholders through debt covenants.

Unrestricted – Unrestricted net assets consist of net assets that do not meet the definition of "restricted for debt service", "restricted for construction" or "invested in capital assets, net of related debt".

Revenue Recognition

The Authority distinguishes operating revenues and expenses from non-operating items. Revenues associated with toll and train fares are recorded as operating revenues when cash is received, except for prepaid amount which are recorded when earned. Expenses related to the administration and maintenance of toll highways and transportation system, repair and maintenance of roads and bridges, and administrative expenses are recorded as operating expenses. All other revenues and expenses are considered non-operating.

Non-operating revenues consist principally of gasoline, diesel, oil and petroleum taxes and vehicle license fees which are allocated to the Authority by the Commonwealth of Puerto Rico as approved by law to finance the acquisition and construction of capital assets and for the payment of the related debt. These taxes and fees are recorded as non-operating revenues when the Puerto Rico Treasury Department collects such taxes and informs the Authority of such collection.



Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Contributions

Contributions are funds assigned by the federal and local governments, agencies and/or private companies such as Federal Highway Administration (FHWA), Federal Transit Administration (FTA), and Federal Emergency Management Agency (FEMA) to the Authority for the exclusive purpose of the construction of specific projects or infrastructure repairs and maintenance. Capital grants of the Authority are reported as non-operating revenues rather than contributed capital as required by GASB Statement No 33, Accounting and Financial Reporting for Nonexchange Transactions.

Financial Instruments

The Authority uses derivative financial instruments to manage the economic impact of fluctuations in interest rates. Effective July 1, 2009, the Authority implemented the provisions of GASB No. 53, Accounting and Financial Reporting for Derivative Instruments, in accounting for its derivative financial instruments, which requires derivative instruments to be reported at fair value in the statement of net assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

The implementation of GASB No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, involved the use of assumptions and estimates in the determination of the cost of general infrastructure assets, such as roads, highways, bridges and land. The cost of such assets was estimated based on current costs for similar assets deflated using the general price index through the estimated average age of the assets.

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Puerto Rico Highways and Transportation Authority (A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Risk Financing

The Authority carries commercial insurance to cover casualty, theft, claims and other losses. The current insurance policies have not been cancelled or terminated. The Authority has not settled any claims in excess of its insurance coverage the years ended June 30, 2011. The Authority also pays premiums for workers compensation insurance to another component unit of the Commonwealth of Puerto Rico.

Newly Issued Accounting Pronouncements

Statement No. 60

In November 2010, GASB issued Statement No. 60 Accounting and Financial Reporting for Service Concession Arrangements. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, a SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. This Statement requires disclosures about a SCA including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented. Management has not completed its determination of the impact on the financial statements once the provisions of this Statement are implemented.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Newly Issued Accounting Pronouncements (continued)

Statement No. 62

In December 2010, the GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

- 1. Financial Accounting Standards Board (FASB) Statements and Interpretations
- 2. Accounting Principles Board Opinions
- 3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

This Statement also supersedes Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented. Management has not completed its determination of the impact on the financial statements once the provisions of this Statement are implemented.

Notes to Financial Statements (continued)

3. Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2011 consisted of:

Cash on hand and in banks	\$ 8,500,328
Repurchase agreements	 18,457,534
Total	 26,957,862

Cash and cash equivalents includes overnight deposits acquired under repurchase agreements with Economic Development Bank (EDB) and Government Development Bank (GDB) in the amounts of \$18 million at June 30, 2011. These deposits are exempt from collateral and therefore are subject to custodian credit risk.

4. Accounts Receivable, Net

Accounts receivable at June 30, 2011 consisted of:

Government agencies and other	\$ 48,111,442	
Rent receivables	4,083,677	
Repairs to highways recoverable from users	1,408,923	
Other	3,824,200	
Total	57,428,242	
Less allowance for doubtful accounts	(47,654,248)
	\$ 9,773,994	_

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Notes to Financial Statements (continued)

5. Restricted Cash, Cash Equivalents, and Investments with Trustee

Restricted cash and investments with trustee at June 30, 2011 consisted of:

Cash and cash equivalents		•
Cash on hand and in banks	\$.	2,943,359
Cash held by:		
Puerto Rico Treasury Department		24,460,105
Government Development Bank		5,473,563
Puerto Rico State Infrastructure Bank		2,128,170
Total	\$	35,005,197
Cash and investments with trustee		
Cash and cash equivalents	\$	153,789,890
Guaranteed investment contracts		339,212,691
US Government securities		190,135,149
Mortgage backed securities		96,991,924
Total	\$	780,129,654

At June 30, 2011, the above amounts were restricted to comply with long-term principal and interest debt service requirements or for construction of transportation facilities. These restricted assets are held by the Fiscal Agent under the Bonds Resolutions in the following funds and accounts:

1968 Reserve Account – Reserve for payment of principal of and interest on Highway Revenue Bonds in the event moneys in Bond Service Account or Redemption Account under Resolution 68-18 are insufficient for such purpose.

1968 Bond Service Account and Redemption Account (Sinking Fund under Resolution 68-18) — Current year requirements for principal and interest on Highway Revenue Bonds.

1998 Senior Reserve Account – Reserve for payment of principal and interest on Senior Transportation Revenue Bonds in the event moneys in Senior Bond Service Account Senior Bond Redemption Account under Resolution 98-06 are insufficient for such purpose.

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Notes to Financial Statements (continued)

5. Restricted Cash, Cash Equivalents, and Investments with Trustee (continued)

1998 Senior Bond Service Account and Senior Bond Redemption Account (Senior Bond Sinking Fund under Resolution 98-06) - Current year requirements for principal and interest on Senior Transportation Revenue Bonds.

1998 Subordinated Reserve Fund – Reserve for payment of principal of and interest on Subordinated Transportation Revenue Bonds in the event moneys in Subordinated Bond Service Account or Subordinated Bond Redemption Account under Resolution 98-06 are insufficient for such purpose.

1998 Subordinated Bond Service Account and Subordinated Bond Redemption Account (Subordinated Bond Sinking Fund under Resolution 98-06) — Current year requirements for principal of and interest on Subordinated Transportation Revenue Bonds.

1998 Construction Fund — Special fund created by the Resolution 98-06. The proceeds of any Transportation Revenue Bonds issued for the purpose of paying the cost of acquiring or constructing transportation facilities, together with the money received from any other source for such purpose, except proceeds which are (i) applied to the repayment of advances, (ii) deposited in the 1998 Senior Bond Reserve Account or 1998 Subordinated Bond Reserve Fund, (iii) deposited in the 1998 Senior or Subordinated Bond Service Account as capitalized interest or (iv) used for the payment of financing expenses, shall be deposited in the 1998 Construction Fund and held by the Fiscal Agent in trust.

2004 Grant Anticipation Bond Reserve Account – Reserve for payment of principal and interest on 2004 Grant Anticipation Bonds in the event insufficient funds for such purpose are available in the Bond Payment Fund.

Notes to Financial Statements (continued)

5. Restricted Cash, Cash Equivalents, and Investments with Trustee (continued)

At June 30, 2011, amounts held by Fiscal Agent in the above accounts amounts to (in thousands):

1968 Reserve Account	\$ 144,056
1968 Sinking Fund	96,587
1998 Senior Reserve Account	283,012
1998 Senior Sinking Fund	156,118
1998 Subordinated Reserved Fund	42,153
1998 Subordinated Sinking Fund	21,257
1998 Construction Fund	24,214
2004 Grant Anticipation Reserve Account	12,732
Total	\$ 780,129

Deposits in Puerto Rico Infrastructure Bank (SIB) represent funds held by Société Générale related to the establishment of a state infrastructure bank account, which is dedicated solely to provide loans or other form of financial assistance consistent with the National Highway System Designation Act of 1995. The SIB is funded by a matching share agreement whereby on or before the date the Authority receives a Federal payment, the Authority must deposit an amount equal to at least 25% of such payment. These time deposits are held in the Authority's name.

6. Deposits and Investments

The following paragraphs disclose essential risk information about deposits and investments as required by Governmental Accounting Standard Board Statement No. 40, Deposits and Investments Risk Disclosures:

The Authority is restricted by law to deposit funds only in institutions approved by the Puerto Rico Treasury Department, and such deposits are required to be kept in separate accounts in the name of the Authority. Resolutions 68-18, 98-06 and 04-18 (the Bond Resolutions) require that moneys in the debt service funds be held by Bank of New York (the Fiscal Agent) in trust and applied as provided in the Bond Resolutions.

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Notes to Financial Statements (continued)

6. Deposits and Investments (continued)

Pursuant to the Investment Guidelines for the Commonwealth adopted by Government Development Bank for Puerto Rico ("GDB"), the Authority may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, repurchase agreements, banker's acceptances, or in pools of obligations of the municipalities of Puerto Rico, among others. Monies in the sinking funds can only be invested in direct obligations of the United States government, or obligations unconditionally guaranteed by the United States government, and/or interest-bearing time deposits, or other similar arrangements, as provided by the Bond Resolutions.

Custodian Credit Risk - Deposits

For deposits, custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. Deposits maintained in GDB or EDB are exempt from collateral requirement established by the Commonwealth and thus represents custodial credit risk because in the event of GDB's or EDB's failure the Authority may not be able to recover the deposits. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth of Puerto Rico.

All moneys deposited with the Trustee or any other Depositary hereunder in excess of the amount guaranteed by the Federal Deposit Insurance Corporation or other federal agency are continuously secured by lodging with a bank or trust company approved by the Authority and by the Trustee as custodian, or, if then permitted by law, by setting aside under control of the trust department of the bank holding such deposit, as collateral security, Government Obligations or other marketable securities.

At June 30, 2011, the Authority was exposed to the following custodial credit risk arising from the balance of deposits maintained in governmental and commercial banks as follows:

	Non-restricted		Rest	ricted
4.	Book Balance	Bank Balance	Book Balance	Bank Balance
Commercial banks	\$24,354,226	\$31,163,782	\$ 2,943,359	\$ 2,181,956
Governmental banks	2,603,636	2,650,444	32,061,838	8,505,937
•	\$26,957,862	\$33,814,226	\$35,005,197	\$10,687,893

Notes to Financial Statements (continued)

6. Deposits and Investments (continued)

Custodian Credit Risk - Investments

For an investment, custodial credit risk is the risk that in event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority invests in prime investments' with a minimum quality rating of Ai Moody's or Standard and Poor's. In addition, investment in bond sinking funds are limited to investments in direct obligations of the United States government, or obligations unconditionally guaranteed by the United States government, and/or interest-bearing time deposits, or other similar arrangements, as provided by the Bond Resolutions.

The Authority maintains funds and accounts under the Bonds Resolutions that are held by a trustee. As of June 30, 2011, the accounts balance amounted to approximately \$780 million. These accounts invest on different types of short-term and long-term securities, including Guaranteed Investment Contracts (GIC). As more fully described in Note 5, under these GICs, the financial statements guarantees the Authority a fixed rate of return. As established in the contract, the financial institution has invested such funds in predetermined securities such as cash, U.S. Treasury and U.S. Government Agency securities. These securities are pledged and serve as collateral for the account balance. The fair value of the guaranteed investment contracts is determined based on the fair value of the underlying investments based on quoted market prices and then adjusted to contract value. As of June 30, 2011, the contract value, which represents amounts deposited plus interest credited less withdrawals, is equal to the fair value.

Providers of guaranteed investment contracts as of June 30, 2011 are as follows:

Société Générale	\$ 67,879,759
Bank of New York	68,489,175
Bank of America	46,883,778
FSA Capital Management Service	44,674,424
Citigroup Financial Product, Inc.	14,776,807
First Union National Bank	25,260,147
Wachovia Bank NA	26,512,201
Westdeutsche Landesbank	44,736,400
Total	\$ 339,212,691

Notes to Financial Statements (continued)

6. Deposits and Investments (continued)

Interest-Rate Risk

Interest-rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes to market interest rate. Maturities of cash and cash equivalents and investments with Trustee at June 30, 2011, are as follows:

	Maturing		Fair Value
	From/To	<u></u>	value
Cash and cash equivalents	N/A	\$	153,789,890
Guaranteed investments contracts	07/01/10-07/31/38		339,212,691
US Government and agencies securities	07/01/10-01/21/20		190,135,149
Mortgage backed securities	07/01/10-01/30/23		96,991,924
Total.	_	\$	780,129,654

All investments have been classified as Aaa by Standard & Poors.

7. Advances to Governmental Entity

Advances to governmental entity at June 30, 2011, consist principally of advances made by the Authority to the DTPW to carry-out its participation in the construction improvement program of the Authority. These advances are reduced by the Authority through charges made by DTPW for repairs and maintenance of roads and bridges. Total amount due from DTPW as of June 30, 2011 amounted to approximately \$10.3 million.

Notes to Financial Statements (continued)

8. Capital Assets, Net

The following schedule summarizes the capital assets, net, held by the Authority as of June 30, 2011:

	Balance at June 30, 2010	Increases	Decreases	Balance at June 30, 2011
	(Restated)			
Asset not being depreciated				
Land	\$ 1,835,534,315 \$	43,605,634 \$	_	\$ 1,879,139,949
Construction in progress	659,113,991	461,167,627	(567,292,507)	552,989,111
Total	2,494,648,306	504,773,261	(567,292,507)	2,432,129,060
Assets being depreciated				
Transportation system	2,419,375,826		_	2,419,375,826
Roads	11,580,448,243	377,780,789		11,958,229,032
Bridges	3,347,373,760	40,155,956	_	3,387,529,716
Equipment, vehicles and other	95,874,506	12,472,802	(8,506,568)	99,840,740
Total	17,443,072,335	430,409,547	(8,506,568)	17,864,975,314
Less accumulated depreciation	(8,791,279,451)	(417,079,159)	8,367,439	(9,199,991,171)
Total assets being depreciated	8,651,792,884	13,330,388	(139,129)	8,664,984,143
Total capital assets	\$ 11,146,441,190 \$	518,103,649 \$	(567,431,636)	\$ 11,097,113,203

Interest expense incurred during the year ended June 30, 2011 amounted to approximately \$364.8 million of which approximately \$11.3 million was capitalized as part of construction in progress in the accompanying statement of net assets.

Notes to Financial Statements (continued)

9. Bonds Payable

The bond resolutions authorize the issuance of revenue bonds to obtain funds to pay the construction and related costs of transportation facilities. Bonds outstanding under the bond resolutions at June 30, 2011, consisted of:

RESOLUTION 68-18	
Serial bonds, maturing through 2034 with interest ranging from 3.30% to 6.50%	\$ 743,550,000
Term bonds, maturing through 2039 with interest ranging from 4.00% to 6.00%	733,670,000
Capital appreciation bonds, maturing through 2026 with interest ranging	
from 4.36% to 4.58%	24,985,521
Subtotal	1,502,205,521
RESOLUTION 98-06	
Serial bonds, maturing through 2037 with interest ranging from 2.25% to 5.75%	1,808,255,000
Term bonds, maturing through 2046 with interest ranging from 2.25% to 5.75%	2,208,795,000
Capital appreciation bonds, maturing through 2026 with interest ranging	
from 4.47% to 5.08%	97,996,641
LIBOR based interest rate bonds maturing through 2045	389,060,000
Consumer Price Index based interest rate bonds maturing through 2028	57,965,000
Subtotal	4,562,071,641
RESOLUTION 04-18	
Serial bonds, maturing through 2021 with interest ranging from 2.25% to 5.00%	100,880,000
Total bonds outstanding	6,165,157,162
Add net unamortized premium	326,527,316
Less unamortized loss on advance refundings	(104,723,720)
Net bonds payable	6,386,960,758
Less current portion	(129,980,000)
Long-term portion	\$ 6,256,980,758
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Puerto Rico Highways and Transportation Authority (A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements (continued)

9. Bonds Payable (continued)

The bonds are secured by a piedge of the gross receipts of the gasoline excise taxes and one half of the diesel oil excise taxes, a maximum of \$11 million monthly (but not more than \$120 million annually) derived from excise taxes over crude oil and its derivatives, \$15 per vehicle per year from motor vehicle license fees, the proceeds of any other taxes, fees or charges which the Legislature of Puerto Rico may allocate to the Authority in the future and which the Authority may pledge, proceeds of any tolls or other charges which the Authority may impose for the use of any of its traffic facilities and certain investment earnings.

The proceeds of the gasoline tax, the gas oil and diesel oil tax, the crude oil tax and the motor vehicle license fees allocated to the Authority are taxes and revenues available under the Constitution of the Commonwealth of Puerto Rico for the payment of principal and interest of bonds. Accordingly, if needed, they are subject to being applied first to the payment of debt service on the public debt of the Commonwealth, but such taxes and license fees are to be used for such payments only if and to the extent that all other available revenues of the Commonwealth under the Constitution are insufficient for such purpose. The Commonwealth has never applied these revenues for such payments.

The Bond Resolutions further provide that receipts of pledged revenues be deposited in certain accounts with the Fiscal Agent for the payment of interest and principal of the bonds outstanding.

Nothing in the Bond Resolutions is to be construed as preventing the Authority from financing any facilities authorized by the Act that created the Authority, as amended, through the issuance of bonds or other obligations, which are not secured under the provisions of the Bond Resolutions.

Notes to Financial Statements (continued)

9. Bonds Payable (continued)

A summary rollforward of bonds payable at June 30, 2011, is as follows:

	Balance at June 30, 2010	Issuance/ Accretions		Payments/ Amortization	Balance at June 30, 2011		Current Portion
Serial bonds							
Resolution 68-18	\$ 802,735,000	\$	- \$	(59.185,000)	\$ 743,550,000	S	66,415,000
Resolution 98-06	1,862,230,000			(53,975,000)	1,808,255,000		56,325,000
Resolution 04-18	107,815,000		_	(6,935,000)	100,880,000		7,240,000
Total	2,772,780,000		-	(120,095,000)	2,652,685,000		129,980,000
Term bonds							
Resolution 68-18	733,670,000		. —		733,670,000		-
Resolution 98-06	2,208,795,000		-		2,208,795,000		
Total	2,942,465,000		_	=	2,942,465,000		
CPI based interest-rate bonds							
Resolution 98-06	57,965,000		-		57,965,000		_
LIBOR based interest-rate bonds							
Resolution 98-06	389,060,000		-	-	389,060,000		
Capital appreciation bands							
Resolution 68-18	23,888,500	4,632,4	105	-	28,520,905		-
Resolution 98-06	93,364,236	1,097,0	21	****	94,461,257		-
Total	117,252,736	5,729,4	126	_	122,982,162		
Total bonds outstanding	\$ 6,279,522,736	\$ 5,729,4	26 5	(120,095,000)	\$ 6,165,157,162	\$	129,980,000

The LIBOR based interest-rate bonds consist of \$389 million of the 2007 Series N. The Series N LIBOR Bonds bear interest from their date of delivery at a per annum rate for each period equal to (a) 67% of the Three-Month LIBOR Rate for such period plus (b) a per annum spread equal to 0.53%. In each case the LIBOR-based interest rate cannot exceed the maximum rate permitted under Puerto Rico law (currently 12%).

The Series 2008A LIBOR bonds (Bond Anticipation Note) matured in August 2009 and bore interest at the index of one month LIBOR plus a spread of 225 base points not to exceed 12%. The maturity date was subsequently extended.

Notes to Financial Statements (continued)

9. Bonds Payable (continued)

Interest on the Consumer Price Index ("CPI") Bonds will be payable on the first Business Day of each month commencing on July 2, 2007. The CPI Rate, which will be reset monthly, is an interest rate based on changes in the CPI and cannot exceed the maximum rate permitted under the Puerto Rico law (currently 12%).

In connection with the issuance of the CPI, LIBOR bonds and USD SIFMA index based interestrate bonds, the Authority has entered into interest-rate swap agreements. In general, the swap agreements provide that, subject to the terms thereof, the Authority will pay to the swap provider a fixed rate and the swap provider will pay to the Authority a floating rate based on the CPI or LIBOR rate, based on a notional amount equal to the principal amount of the CPI and LIBOR bonds outstanding. The purpose of the swap agreement is generally to convert the Authority's floating rate obligations with respect to the CPI and LIBOR bonds to fixed rate obligations.

On July 1, 2010, the Authority issued \$253,670,000 of Highway Revenue Refunding Bonds (Series AA) and \$44,275,000 of Transportation Revenue Refunding Bonds (Series H) to convert the interest rate mode from a term rate to a fixed rate. The Series AA which consists of \$188,395,000 aggregate principal amount of Series AA-1 Bonds and \$65,275,000 aggregate principal amount of Series AA-2 Bonds, bear interest at a fixed rate of 4.95% and 5.30%, respectively, and are due on July 1, 2026 and 2035, respectively. The Series H bears interest at a fixed rate of 5.45% and is due on July 1, 2035.

Notes to Financial Statements (continued)

9. Bonds Payable (continued)

Debt Maturities

The outstanding bonds as of June 30, 2011 require future payments of principal and interest as follows:

Fiscal years ended June 30,	 Principal Interest		Total		
2012	\$ 129,980,000	\$	304,595,461	\$	434,575,461
2013	157,645,000		297,863,677		455,508,677
2014	166,090,000		289,412,198		455,502,198
2015	177,225,605		280,436,538		457,662,143
2016	169,844,355		287,794,324		457,638,679
2017-2021	1,009,136,170		1,266,117,667		2,275,253,837
2022-2026	865,981,086		983,626,671		1,849,607,757
2027-2031	908,820,715		802,773,166		1,711,593,881
2032-2036	1,165,195,990		528,480,243		1,693,676,233
2037-2041	967,428,241		230,466,850		1,197,895,091
2042-2046	447,810,000		51,166,998		498,976,998
Total	\$ 6,165,157,162	\$	5,322,733,793	\$	11,487,890,955

For variable interest-rate bonds included above, the debt service requirements and net swap payments were computed assuming current interest rates remain the same for their term. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Notes to Financial Statements (continued)

9. Bonds Payable (continued)

Debt Refunding

The outstanding balances as of June 30, 2011 of the bond issues defeased by the Authority are as follows:

Series Y	\$ 437,680,000
Series D	548,575,000
Scries K	485,105,000
Series A	18,790,000
Series G	290,770,000
Series J	269,100,000
Series H	 9,905,000
Total outstanding defeased bond issued	\$ 2,059,925,000

10. Derivatives

In connection with the issuance of the CPI and LIBOR Bonds, the Authority has entered into interest-rate swap agreements. In general, the swap agreements provides that, subject to the terms thereof, the Authority will pay to the swap provider a fixed rate and the swap provider will pay to the Authority a floating rate based on the CPI or LIBOR Rate, based on a notional amount equal to the principal amount of the CPI and LIBOR Bonds outstanding. The purpose of the swap agreement is generally to convert the Authority's floating rate obligations with respect to the CPI and LIBOR Bonds to fixed rate obligations.

The Authority entered into pay fixed, receive variable interest-rate swap agreements in the following bonds: \$389 million LIBOR based interest-rate bonds, \$200 million USD SIFMA Swap Index based interest rate bonds, and \$58 million CPI based interest-rate bonds. The counterparties are Citibank, N.A, ("Citibank), Morgan Stanley Capital Services, Inc ("Morgan") and UBS Financial Services ("UBS").

Based on GASB 53, the Authority has established a derivative liability and corresponding deferred unrealized loss on derivative instruments as of June 30, 2011 of approximately \$98 million and \$63 million, respectively.

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Notes to Financial Statements (continued)

10. Derivatives (continued)

Terms and Fair Values

Changes in fair value are recorded in the accompanying statement of net assets in the deferred unrealized loss unless a termination event occurred.

The credit ratings of the counterparties, terms and fair value of the outstanding swaps as of June 30, 2011, are as follows:

Counter Party	Rating (1)	Objective		Notional Amount	Effective Date	Fixed Rate	Variable Rate	Maturity Date	2011 Fair Value
Cabank	∆3/AV <u>A</u> +	Hedge of changes in cash flows on the Series N bonds	s	233,440,000	3/6/2007	4.106%	67% of CIBOR sterest rate phis a spread of 53%	7/1/2045	\$ (40,622,16
L'álbank	A3/A/A+	Hedge of changes in cash flows on the Series N bonds	S	155,620,000	3/6/2007	4.107%	67% of LIBOR interest rate plus a spread of 53%	7/1/2041	(26,337,67
Morgan	A2/A/A	Hedge of changes in each flows on the Series N bonds	\$	57,965,000	3/6/2007	4,050% - 4,060%	Consumer price index rate plus a spread of 1.12%	7/1/2027 7/1/2028	1,288,71
Morgan	A2/A/A	Hedge of changes in cash flows on the Series A bonds	\$	150,000,000	5/27/2008	4,371%	USD SIFMA swap index loss a spread of .5%	7/1/2028	(23,907,69
UBS	As3/A+/A-	Hedge of changes in each flows on die Series A bonds	s	50,000,000	5/27/2008	4.371%	USD SIFMA swap index less a spread of .5%	7/1/2028	(7,967,73
									\$ (97,546,55

⁽¹⁾ Moody's Investors Service, Standard & Poor's and Frich, respectively.

The notional amounts of the swaps match the principal amount of the associated debt. The swap agreements contain scheduled reductions to outstanding notional amounts that follow scheduled reductions in the associated debt.

Notes to Financial Statements (continued)

10. Derivatives (continued)

Fair Values

The fair value estimates reflected on the statement of net assets are based on pertinent information available to management at the statement of net assets date. Relevant market interest rates as of June 30, 2011, valuation date of the swaps, were lower than market interest rate on the effective date of the swaps. Consequently, as of the valuation date, the swaps had a negative fair value. The fair values listed in the above table represent the theoretical cost of terminating the swaps. The fair values were estimated using present value models that take into consideration several factors, including volatility. The fair values presented have not been settled for purposes of these financial statements since June 30, 2011, and current estimates of fair value may differ significantly from the amounts presented herein.

As of June 30, 2011, the swaps had a negative fair value reported as a liability of approximately \$98 million. The negative fair value of the swaps may be countered by reduction in future net interest payments required on the variable-rate bonds, creating higher synthetic rates.

Credit risk – Because all of the Authority's swaps rely upon the performance of the third parties who serve as swap counterparties, the Authority is exposed to credit risk, or the risk that the swap counterparty fails to perform according to its contractual obligations. The appropriate measurement of this risk at the reporting date is the fair value of the swaps, as shown in the columns labeled Fair Value in the table above. When the fair value is positive the counterparty owes the Authority, which creates a credit risk for the Authority. When the fair value is negative the Authority owes the counterparty and therefore the Authority does not possess credit risk. The Authority minimizes the credit risk in derivative instruments by entering into transactions with counterparties whose credit rating is acceptable under the investment policies of the Authority.

As of June 30, 2011, the Authority was not exposed to credit risk because the swaps had a negative fair value in the amount of the swaps' fair value. However, should interest rates change and the fair value of the swap become positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value.

Notes to Financial Statements (continued)

10. Derivatives (continued)

Fair Values (continued)

Termination risk — The Authority's swap agreements do not contain any out-of-the-ordinary termination events that would expose it to significant termination risk. In keeping with market standards the Authority or the counterparty may terminate each swap if the other party fails to perform under the terms of the contract. In addition, the swap documents allow either party to terminate in the event of a significant loss of creditworthiness. The Authority views such events to be remote at this time. If the swap is terminated, the variable-rate bond would no longer carry a fixed interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

Rollover risk – the Authority is not exposed to rollover risk since the due date of the swaps is the same due date of the related bonds.

On November 16, 2010, the Authority amended the critical terms of the hedging swap with Morgan Stanley (with notional amount of \$150.0 million) and the hedging swap with UBS (with notional amount of \$50.0 million), which represents termination of hedging accounting, based on GASB 53. Since the fixed rate of the new swaps is higher than the current at-the-market rate for similar swaps, the swaps are considered off-market swaps. The fair value of the new swaps now represents an imputed debt since no cash was involved in the transaction. This imputed debt needs to be amortized over the life of the new swaps. As a result, the deferral amounts of \$34 million, which equal the fair value of the old swaps at termination date, were reported as investment revenue (decrease in fair value upon hedge termination) in the Authority's statement of revenues, expenses and changes in net assets for the year ended June 30, 2011. Amortization of the imputed debt amounting to approximately \$1.3 million was included as interest expense in the accompanying statement of revenues, expenses and changes in net assets.

Notes to Financial Statements (continued)

10. Derivatives (continued)

Fair Values (continued)

The table that follows represents debt service payments on certain variable-rate bonds and the net payments on associated hedging derivative instruments as of June 30, 2011. Although interest rates on variable rate debt and the current reference rates of hedging derivative instruments change over time, the calculations included in the table below are based on the assumption that the variable rate and the current reference rates of hedging derivative instruments on June 30, 2011, will remain the same for their term.

		'ariable-F	Rate	Bonds		ledging rivatives		
Year Ending June 30,	Pri	ncipal]	Interest		truments, Net		Total
2012	\$	_	\$	6,453	\$	20,627	\$	27,080
2013		_		6,453		20,638		27,091
2014		****		6,453		20,632		27,085
2015		move.		6,453		20,632		27,085
2016				6,453		20,637		27,090
2017-2021		32,945		31,941		101,362		166,248
2022-2026		97,060		29,207		86,704		212,971
2027-2031		127,960		18,328		68,483		214,771
2032-2036		_		14,279		65,599	¥	79,878
2037-2041		_		14,279		63,034		77,313
2042-2046		389,060		7,567		17,638		414,265
Total	\$	647,025	\$	147,866	\$	505,986	\$	1,300,877

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Notes to Financial Statements (continued)

11. Borrowings under Lines of Credit

At June 30, 2011, lines of credit consist of the following:

Description	_	
Non-revolving line of credit of up to \$122,113,000 bearing interest at the Government Development Bank		
cost of funding for tax exempt or		
variable rate loan transactions plus a margin of 150 basis points (6.00% and 4.75% at June 30, 2011 and	. \$	122,113,000
Non-revolving line of credit of up to \$25,000,000 bearing interest at the Government Development Bank		
cost of funding for tax exempt or		
variable rate loan transactions plus a margin of 150 basis points (6.00% and 4.75% at June 30, 2011		25,000,000
Non-revolving line of credit of up to \$140,000,000 bearing interest at the Government Development Bank		•
cost of funding for tax exempt or		
variable rate loan transactions plus a margin of 150 basis points (6.00% and 4.75% at June 30, 2011 and		140,000,000
Non-revolving line of credit of up to \$15,000,000 bearing interest at the Government Development Bank		
cost of funding for tax exempt or		
variable rate loan transactions plus a margin of 150 basis points (6.00% and 4.75% at June 30, 2011 and		15,000,000
Non-revolving line of credit of up to \$78,000,000 bearing interest at the Government Development Bank		
cost of funding for tax exempt or		
variable rate loan transactions plus a margin of 150 basis points (6.00% and 4.75% at June 30, 2011		78,300,000
Non-revolving line of credit of up to \$400,000,000 bearing interest at the Government Development Bank		
cost of funding for tax exempt or		
variable rate loan transactions plus a margin of 275 basis points (6.00% and 6.00% at June 30, 2011 and		400,000,000
Non-revolving line of credit of up to \$111,000,000 bearing interest at the Government Development Bank	:	
cost of funding for tax exempt or		
variable rate loan transactions plus a margin of 150 basis points (4.75% and 4.75% at June 30, 2011 and	:	111,000,000
Non-revolving line of credit of up to \$37,900,000 bearing interest at the Government Development Bank		
cost of funding for tax exempt or		
variable rate from transactions plus a margin of 150 basis points (4.75% and 4.75% at June 30, 2011 and		37,900,000
Revolving line of credit of up to \$20,000,000 bearing interest at the GDB cost of funding for tax exempt		
or variable rate loan transaction plus		11,780,187
Non-revolving line of credit of up to \$3,000,000 bearing interest at the GDB cost of funding for tax		
exempt or variable rate loan transactions		2,685,533
Non-revolving line of credit of up to \$63,000,000 bearing interest at the GDB cost of funding for tax		
exempt or variable rate loan transactions		25,000,000
Non-revolving line of credit of up to \$206,213,757 bearing interest at the GDB cost of funding for tax		
exempt or variable rate loan transactions		180,339,165
Non-revolving line of credit of up to \$40,539,865 bearing interest at the GDB cost of funding for tax		
exempt or variable rate loan transactions		40,539,865
Non-revolving line of credit of up to \$87,174,596 bearing interest at the GDB cost of funding for tax		
exempt or variable rate loan transactions		63,943,471
Non-revolving line of credit of up to \$16,252,489 bearing interest at the GDB cost of funding for tax		
exempt or variable rate loan transactions		16,252,489
Non-revolving line of credit of up to \$24,000,000 bearing interest at the GDB cost of funding for tax		
exempt or variable rate loan transactions		2,662,070
Non-revolving line of credit of up to \$21,791,245 bearing interest at the GDB cost of funding for tax		
exempt or variable rate loan transactions		21,791,245
Total	\$	1,294,307,024

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Notes to Financial Statements (continued)

11. Borrowings under Lines of Credit (continued)

On July 13, 2010, the Authority entered into a new non-revolving line of credit with GDB for the amount of \$63 million for the settlement of various legal cases, as described in Note 16. This line of credit matures on August 30, 2012 and bears interest daily at variable rate of interest per annum equal to Prime Rate plus 150 basis points. The interest rate shall not exceed twelve (12) percent and shall not be less than six (6) percent.

On August 27, 2010, the Authority entered into a non-revolving line of credit with GDB for the amount of \$45 million for the exclusive purpose of paying collateral posting requirements on the fixed payer swaps associated to the Authority Floating Rate Notes and to cover costs related to this financing. This line of credit matures on August 27, 2011 and bears interest daily at variable rate of interest per annum equal to Prime Rate plus 150 basis points. The interest rate shall not exceed twelve (12) percent and shall not be less than six (6) percent.

On August 27, 2010, the Authority entered into a non-revolving line of credit for the amount of \$118.3 million, for the purpose of paying certain costs incurred or to be incurred in the acquisition, construction, equipping, installation and development of certain capital improvements, and paying certain costs associated with the automatization of the Authority's toll collection system. This line of credit matures on August 27, 2013 and bear interest daily at variable rate of interest per annum equal to Prime Rate plus 150 basis points. The interest rate shall not exceed twelve (12) percent and shall not be less than six (6) percent.

On November 8, 2010, the Authority entered into a new agreement with GDB for the amount of \$83.8 million to increase the \$45 million nonrevolving line of credit agreed on August 27, 2010, with the same loan terms.

On January 26, 2011, the Authority received an extension for its lines of credit amounting to \$122.1 million, \$25 million, \$15 million, and \$78.3 million, which were due on June 30, 2011. The maturity date of these lines of credit was extended to August 31, 2012.

Notes to Financial Statements (continued)

12. Retirement Plan

Substantially all the Authority's employees participate in the Retirement System of the Commonwealth of Puerto Rico ("the System"), a cost-sharing multi-employer defined benefit pension plan. Payroll for employees covered by the System for the year ended June 30, 2011 was approximately \$89 million.

All Authority's employees, who at the time of employment are 55 years old or less, are eligible to participate in the System. Employees who retire at or after age 55 with 25 years of credited service or age 58 with 10 years of credited service are entitled to a retirement benefit, payable each month for life, computed based on a benefit rate set forth by Commonwealth statute. The System also provides death and disability benefits established by Commonwealth statute. Commonwealth legislation requires employees to contribute 5.775% of the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Authority is required by the same statute to contribute 9.275% of the participant's gross salary.

On September 24, 1999, an amendment to Act No. 447 of May 1, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Employees joining the Authority on or after January 1, 2001, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age.

The annuity will be based on a formula which takes into account each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) and investment income as defined in the Plan. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000.

Notes to Financial Statements (continued)

12. Retirement Plan (continued)

Total employer contributions (rounded) for the year ended June 30, 2011, were approximately as follows:

Traditional Plan	3,576,000
System 2000	 2,728,000

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2011, a copy of which can be obtained from the Retirement System Administration, Minillas Station, P.O. Box 42003, San Juan, PR 00940.

The Authority has a labor union contract that provides all union employees who work for the Authority upon retirement with the following lump-sum bonus payable at the retirement date computed as follows:

Amount
\$170 per year of service
\$200 per year of service
\$225 per year of service
\$250 per year of service

In addition, management employees have similar benefits under the same conditions granted to labor union personnel, as detailed above.

13. Other Post-Employment Benefits

The Authority has implemented GASB Statement No. 45, Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions (GASB 45). This Statement establishes the standards for the measurement, recognition, and display of Other Postemployment Benefits ("OPEB") expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

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> Puerto Rico Highways and Transportation Authority (A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements (continued)

13. Other Post-Employment Benefits (continued)

Postemployment benefits are part of an exchange of salaries and benefits for employee services rendered. Most OPEB have been funded on a pay-as-you-go basis and have been reported in financial statements when the promised benefits are paid. GASB 45 requires state and local government's financial reports to reflect systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with the OPEB and whether and to what extent progress is being made in funding the plan.

Plan Description

The Authority agreed to provide medical, pharmacy, dental and vision medical insurance coverage to eligible retirees, its spouses and dependents, for a period of two years after retirement as a single employer defined benefit Other Post Employment Benefits Plan ("The Plan") and the voluntary termination benefits as per Act No. 70. Under the Act No. 70, the Authority agreed to pay the pension benefit until the member reaches a specified age and/or service amount. The Plan can be amended by action of the Authority subject to applicable collective bargaining and employment agreements. The Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

Funding Policy

The obligations of the Plan members' employer are established by action of the Authority pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement.

The Authority currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Authority.

Notes to Financial Statements (continued)

13. Other Post-Employment Benefits (continued)

Annual OPEB Cost and Net OPEB Obligation

The Authority's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer ("ARC"). The Authority has engaged an actuary to calculate the ARC and related information per the provisions of GASB Statement 45 for employers in the Plan with more than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Authority's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan, and the Authority's net OPEB obligation to the Plan at June 30:

Annual required contribution (ARC)	\$ 4,434,792
Adjustment to annual required contribution	 (2,938)
Annual OPEB cost (AOC)	4,431,854
Contribution made	 4,242,000
Increase in net OPEB obligation	 189,854
Net OPEB obligation at beginning of year	 64,586
Net OPEB obligation at end of year	\$ 254,440

The Authority's annual OPEB cost, percentage of annual OPEB cost contribution to the plan, and net OPEB obligation for the year ended June 30, 2011 were as follows (in thousands):

 Fiscal Year Ended			Percentage of Annual OPEB Cost Contributed	Net OPEB Benefit	
2011	\$	4,432	95.7%	\$ 254	
2010		753	110.5%	65	
2009		892	56.9%	144	
2008		889	127.1%	(241)	

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Puerto Rico Highways and Transportation Authority (A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements (continued)

13. Other Post-Employment Benefits (continued)

Annual OPEB Cost and Net OPEB Obligation (continued)

As of June 30, 2011, the actuarial accrued liability for benefits was \$49,487,000, all of which were unfunded. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$84,158,000 during the year ended June 30, 2011, and the ratio of the unfunded actuarial accrued liability to the covered payroll was approximately 58.8% as of June 30, 2011.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to the point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The valuation date was July 1, 2010 and the *Projected Unit Credit Cost Method* was used. The actuarial assumptions were based on a set of assumptions modified to the Authority.

Turnover rates were taken from a standard actuary table, T-5. This table was chosen so as to match the Authority historical turnover experience. Retirement rates were also based on recent Authority experience, but are less reliable due to the size of the current retiree group and the relative newness of the program.

Notes to Financial Statements (continued)

13. Other Post-Employment Benefits (continued)

Methods and Assumptions (continued)

A discount rate of 4% was used. This rate is the best actuarial estimate of expected long-term experience and is in accordance with guidelines for selection of these rates under GASB 45. The healthcare trend rates are based on the actuarial knowledge of the general healthcare environment and the specific coverage offered by the Authority.

14. Voluntary Termination Benefits

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Authority. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee' salary, as defined. In this early retirement benefit program, the Authority will make the employee and the employer contributions to the Retirement System and pay the corresponding pension obligation until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years. For eligible employees that choose the economic incentives and have at least 30 years of credited service in the Retirement System and the age for retirement or have the age for retirement, the Authority will make the employee and the employer contributions to the Retirement System for a five-year period.

Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have less than 15 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Authority.

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Puerto Rico Highways and Transportation Authority (A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements (continued)

14. Voluntary Termination Benefits (continued)

The financial impact resulting for the benefits granted to participants on this program was the recognition within the Authority's financial statements of a liability of \$77 million in the statement of net assets as of June 30, 2011 and a charge of \$77 million in the statement of revenues, expenses and changes in net assets for the year ended June 30, 2011. At June 30, 2011, unpaid long-term benefits granted on this program was discounted at 3.17% for early retirement benefits that will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and at 1.85% for employee and the employer contributions to the Retirement System to cligible employees that have 30 years of credited service in the Retirement System and the age for retirement or have the age for retirement.

15. Related Party Transactions

Operating administrative and general expenses during the fiscal year ended June 30, 2011 included approximately \$13 million of charges from Puerto Rico Electric Power Authority (PREPA), a component unit of the Commonwealth.

As of June 30, 2011, the Authority had approximately \$33 million of receivables from the Commonwealth and its component units, which were reported in accounts receivable in the accompanying basic financial statements.

Over the years, GDB, as fiscal agent and bank of the Commonwealth, had extended lines of credit to the Authority in order to finance capital improvement projects and operational deficits. As of June 30, 2011, the Authority had an outstanding balance of approximately \$1,294 million under these lines of credit.

As of June 30, 2011, the Authority has amounts due to other governmental entities for operating leases and other agreements of approximately \$356 million.

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Notes to Financial Statements (continued)

16. Commitments and Contingent Liabilities

Construction

As of June 30, 2011, the Authority had commitments of approximately \$667 million related to construction contracts.

Leases

The Authority has various non-cancelable operating leases for office space with the Puerto Rico Public Buildings Authority and Puerto Rico Port Authority, which are related parties, and other lessors. These leases have an initial term of three years or more, the latest of which expires in June 2090, and can be renewed at end of lease term for an additional year. The rental expense for the year ended June 30, 2011 was approximately \$646,000. Future rental payments as of June 30, 2011 under these leases are as follows:

Year ending June 30,	
2012	\$ 2,117,520
2013	2,117,520
2014	2,117,520
2015	2,117,520
2016	2,042,742
2017-2021	9,092,040
Thereafter	6,879,420
	\$ 26,484,282

Litigation

The Authority is defendant or co-defendant in various lawsuits for alleged damages in cases principally related to construction projects. These are generally either fully or partially covered by insurance. The contractors are required, under the terms of the construction agreements, to carry adequate public liability insurance and to hold harmless the Authority from lawsuits brought on account of damages relating to the construction of the projects.

During July 2010, the Authority settled two legal cases amounting to approximately \$62 million. On June 13, 2011, the Authority deposited approximately \$21.8 million at the Federal Court of Puerto Rico as part of the appeal process at the US Court of Appeals for the First Circuit of Boston for another legal case related to a construction project.

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Notes to Financial Statements (continued)

16. Commitments and Contingent Liabilities (continued)

Litigation (continued)

As of June 30, 2011, the Authority, based on legal advice, has recorded a provision of approximately \$92.6 million to cover probable losses on those claims not fully covered by insurance. In the opinion of legal counsel, any liability in excess of the insurance coverage and/or the recorded provision that may arise from such claims would not be significant to the Authority's financial position or results of operations.

Special Facility Revenue Bonds

On December 20, 1992, the Authority and Autopistas de Puerto Rico y Compañía S.E. ("Autopistas") entered into a concession agreement ("the Concession Agreement"), amended in 1992, and again in 2004, for the design, construction, operation and maintenance of the Teodoro Moscoso Bridge ("the Bridge"), a toll bridge, which traverses the San Jose Lagoon between the municipalities of San Juan and Carolina. Autopistas designed and constructed the Bridge and commenced operating the Bridge on February 23, 1994. The initial term of this agreement is 35 years, expiring on April 3, 2027.

In March 1992, the Authority issued Special Facility Revenue Bonds, 1992 Series A, B and C amounting to approximately \$117 million for the purpose of facilitating the construction of the Bridge. The proceeds from the sale of the bonds were transferred by the Authority to Autopistas, the borrower, pursuant to a loan agreement (the Loan Agreement) by and between Autopistas and the Authority.

On October 30, 2003, the Authority issued Special Facility Revenue Refunding Bonds, 2004 Scries A amounting to approximately \$153 million for the purpose of refunding the Authority's Special Facility Revenue Bonds, 1992 Series A, B, and C, which were issued to fund the construction of the Bridge, and to pay the cost of issuance of the bonds. The proceeds from the sale of the bonds were transferred by the Authority to Autopistas, pursuant to a new loan agreement by and between Autopistas and the Authority.

Under certain circumstances, the Concession Agreement may be terminated and the Authority is then obligated to assume all of the Autopistas's obligations to pay principal of, and interest on, the bonds outstanding, which pursuant to the Loan Agreement will be paid from the net revenues of the use and operation of the Bridge. The Authority does not currently expect the Concession Agreement to terminate. The outstanding bonds (including accrued interest) at June 30, 2011, amounted to approximately \$160 million.

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Puerto Rico Highways and Transportation Authority (A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements (continued)

16. Commitments and Contingent Liabilities (continued)

Federal Assistance Programs

The Authority participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, or to compliance audits by grantor agencies.

17. Operation and Maintenance of Urban Train System

The Authority entered into a System and Test Track Turnkey Contract ("STTT Contract") with Siemens Transportation Partnership Puerto Rico, S.E., Juan R. Requena y Asociados, and Alternate Concepts, Inc. (all together known as "Siemens") for the purpose of operating and maintaining the Tren Urbano. During 2005, the STTT Contract became effective upon the execution of the contract for an initial term of five years with an option by the Authority to extend the term for an additional five years. The compensation is based on a schedule included in the master agreement which approximates \$4 million on a monthly basis. The total annual operation and maintenance cost, including cost of insurance and electricity, for fiscal year 2011 was approximately \$54 million.

Costs incurred in connection with the integrated transportation system financed in part by the Authority during the year ended June 30, 2011 amounted to approximately \$28 million.

As authorized by Resolution 2007-40, the Authority contracted the Metropolitan Bus Authority (AMA), a public corporation of the Commonwealth of Puerto Rico, to operate the service known as Metrobus II which consists of a feeder bus service of 21 AMA routes that were changed to service the Urban Train stations. This feeder bus service is considered a key strategy for increasing rail ridership.

On April 8, 2009, by Resolution 2009-06, the Authority cancelled the contract with AMA related to Metrobus II service.

Metrobus I service consists of two express routes, Metrobus Route I and Metrobus Expreso, which provides service between the University of Puerto Rico and Old San Juan. The Authority contracted First Transit to operate this service. The service is provided seven days a week using 24 buses owned by First Transit.

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Notes to Financial Statements (continued)

18. Impact Fee and Other

The Authority charges a fee (impact fee) to real estate developers for the impact the new development will have on the Authority's transportation facilities.

Impact fee and other for the years ended June 30, 2011 consisted of:

Impact fee	\$ 1,718	,453
Electronic toll label sales and fines fees	2,834	,518
Metrobus fare fees	519	,835
Other:	2,624	,034
Total.	\$ 7,696	,841

19. Subsequent Events

On June 27, 2011, the PRHTA entered into a Toll Concession Agreement with a private company named "Autopistas Metropolitanas de Puerto Rico, LLC". The purpose of this Agreement is to finance, operate and maintain the PR-22 and PR-5 highways for a 40 years term. In this transaction, the PRHTA will receive a concession fee of \$1.08 billion and will stop receiving the tolls revenues for those two highways. This transaction will benefit the PRHTA fiscal capacity in the following matters: 1) the Authority will obtain a significant amount of cash, that will be used to defease the corresponding bonds payable, 2) a minimum of capital investment of approximately \$75 million for the next 3 years need to be perform by the third party, so it will not have maintenance costs for the next 40 years, 3) increase the quality of highways in terms of security to Global Standards, and 4) savings in interest expenses of approximately \$100 million annually due to the decrease in outstanding bonds by \$1 billion. This Agreement was effective when the third party paid the Concession Fee on September 22, 2011.

During the execution of this transaction, the Authority entered into a new agreement with GDB for the amount of \$400 million nonrevolving line of credit. This line of credit matures on March 19, 2012, and bear interest daily at variable rate of interest per annum equal to Prime Rate plus 150 basis points. The interest rate shall not be less than six (6) percent.

Notes to Financial Statements (continued)

19. Subsequent Events (continued)

On August 25, 2011, the Authority entered into a new agreement with GDB for the amount of \$77 million to increase the \$45 million nonrevolving line of credit agreed on August 27, 2010, with the same loan terms and an extension in the maturity date until January 31, 2013.

On October 18 2011, the Authority entered into a new agreement with GDB for the amount of \$71 million for the purpose of paying certain costs incurred or to be incurred in the acquisition, construction, equipping, installation and development of certain capital improvements, and paying certain costs associated with the automatization of the Authority's toll collection system. This line of credit matures on August 31, 2013 and bear interest daily at variable rate of interest per annum equal to Prime Rate plus 150 basis points. The interest rate shall not be less than six (6) percent.

On October 20, 2011, the Authority entered into a new agreement with GDB to modify the purpose of the \$24 million nonrevolving line of credit agreed on April 19, 2011. The new purpose of the line of credit will be for paying cost incurred or to be incurred for operational purposes of the Maritime Transportation Authority.

On November 22, 2011, the Authority entered into a new agreement with GDB for the amount of \$49.3 million to increase the \$45 million nonrevolving line of credit agreed on October 18, 2011, with the same loan terms.

20. Fiscal Condition

The Authority faces a number of business challenges that have been exacerbated by the Commonwealth's economic recession and the fact that the Authority has not increased tolls to its customers at sufficient levels to offset the effects of its rising costs. Its principal challenges, some of which are interrelated, are: (i) reduction of operating costs; (ii) increase in the use of federal grants; and (iii) improving its liquidity. The Authority is committed to take all necessary measures to ensure it achieves a healthy financial condition.

Notes to Financial Statements (continued)

21. Financial Covenants and Fiscal Oversight Agreement

The Authority's Resolutions 68-18, 98-06 and 04-18 (the Resolutions) contain distinct financial covenants requiring the maintenance of certain financial ratios. In addition, the Resolutions contain a covenant which requires audited financial statements to be issued within 120 days after its fiscal year end (October 29).

As of June 30, 2011, the Authority was not in compliance with this requirement. However, failure by the Authority to meet this covenant does not constitute an event of default under the Resolutions. The Authority is taking the necessary actions to comply with the financial covenant requirements.

On July 6, 2009, the Authority entered into a Fiscal Oversight Agreement (the Agreement) with the Government Development Bank (GDB). The Agreement requires the Authority to comply with certain covenants, which are mainly composed of reporting requirements. Failure to meet these covenants grants the GDB additional oversight powers over the Authority, but do not constitute events of default of the lines of credit that the Authority has with the GDB.

As of June 30, 2011, the Authority was not in compliance with the Agreement. The Authority is taking the necessary actions to comply with the covenant requirements and is in compliance with the covenants established by the Agreement as of the date of the issuance of the financial statements.

22. Restatement of 2010 Financial Statements

During the year ended June 30, 2011, prior period misstatements were discovered that resulted in the overstatement of the net assets of \$18.1 million as of June 30, 2011 related to the untimely transfer of projects from construction in progress to depreciable capital assets and inappropriate capitalization of costs in capital assets from transactions, improper cut-off of interest payable related to certain variable rate bonds, and untimely recording of obligations due to a related party. The impact of these prior period misstatements, some of which occurred over multiple prior years, resulted in the overstatement of capital assets, net, understatement of accounts and subcontractors payable and overstatement of accrued interest payable as of June 30, 2010.

Notes to Financial Statements (continued)

22. Restatement of 2010 Financial Statements (continued)

Based on our evaluation of relevant quantitative and qualitative factors, we determined the identified misstatements are material to the prior period financial statements. Consequently, we have restated the opening June 30, 2010 net assets, appearing herein, from amounts previously reported to correct the prior period misstatements. The table below summarizes the effect of the restatement of previously reported net assets as of June 30, 2010:

Statement of Net Assets		pital Assets, Net		Accounts and ubcontractors Payable	Accrued Interest Payable	Net Assets	
As of June 30, 2010, as reported	\$	11,169,929,203	\$	(123,835,289) \$	(197,323,600) \$	(4,170,363,764)	
Restatement		(23,482,013)		(5,590,440)	11,015,066	18,057,387.	
As of June 30, 2010, as restated	<u> </u>	11,146,447,190	S	(129,425,729) \$	(186,308,534) \$	(4,152,306,377)	

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Required Supplementary Information

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Suplementary Schedule of Funding Progress

Year Ended June 30, 2011 (In thousands)

Actuarial Valuation Date	Val As:	uarial ue of sets a)	Accrued Liability (b)		Unfunded Accrued Liability (UAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAL Percentage of Covered Payroll [(b)-(a)]/(c)]
July 1, 2010	\$		\$	49,487	\$ 49,487	0.0%	\$ 84,158	58.8%
July 1, 2009		– .		7,185	7,185	0.0%	91,396	7.9%
June 30, 2008				7,068	7,068	0.0%	76,659	9.2%

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